Mitsumaru East Kit (Holdings) Limited
三丸東傑（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2358)

ANNUAL REPORT 2008

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr. Zhang Shuyang (Chairman and Chief Executive Officer)
Mr. Leung Koon Sing

Independent Non-executive Directors
Mr. Kwong Ping Man
Mr. Martin He
Mr. Mu Xiangming

AUDIT COMMITTEE

Mr. Kwong Ping Man (Chairman)
Mr. Martin He
Mr. Mu Xiangming

NOMINATION COMMITTEE

Mr. Mu Xiangming (Chairman)
Mr. Kwong Ping Man
Mr. Martin He
Mr. Zhang Shuyang

REMUNERATION COMMITTEE

Mr. Martin He (Chairman)
Mr. Kwong Ping Man
Mr. Mu Xiangming
Mr. Leung Koon Sing

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 1, 39/F.
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Cheng Sik Kong, *FCCA, CPA*

AUTHORISED REPRESENTATIVES

Mr. Zhang Shuyang
Mr. Leung Koon Sing

AUTHORISED REPRESENTATIVES

(to accept service of process and notices under Part XI of the Hong Kong Companies Ordinance)
Mr. Leung Koon Sing
Mr. Cheng Sik Kong

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

Shanghai Pudong Development Bank
No. 159, Xin Song Road
Shanghai
PRC

Bank of Communications
No. 82, Xin Tan Road
Shanghai
PRC

STOCK CODE

2358

WEBSITE

http://www.mitsumaru-ek.com

Zhang Shuyang
Chairman

Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the annual report and the audited financial statements of Mitsumaru East Kit (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2008 (the "Year").

With the fast growing popularity of LCD CTVs in emerging markets such as Brazil, India, Russia and the PRC, the decrease in the production of CRT CTVs in 2008 was greater than expected. Given the economic recession in the United States and Europe, the tightening financial policies and the higher inflation in most emerging markets, it is expected that the turnover growth of LCD CTVs will slow down in 2009. However, the supply will continue its increasing trend due to stronger consumer demands and lower selling prices.

In the light of the favourable conditions such as the hosting of the Beijing Olympics, the LCD CTV market in the PRC maintained a rapid growth despite the global financial turmoil and the flagging domestic property market. LCD CTVs has become the main stream of the CTV market. With the higher acceptance of LCD CTVs in the first- and second-tier markets, LCD CTVs has begun to replace CRT CTVs. In 2009, the LCD CTV market will maintain the momentum, especially in the third- and fourth-tier markets, and it is anticipated that LCD CTVs will continue its rapid penetration in the markets.

During the year, the escalating cost of certain raw materials and components, wage overheads, logistics and transportation costs, together with the lower selling prices of CTVs caused significant pressure on the Group's operations. Besides, as most of the Group's activities are export-oriented, the falling international demand, the currency exchange loss from the changes in RMB exchange rate, the slumping macro-economies and the financial crisis in the second half of 2008 had an adverse impact on the Group.

Affected by negative factors, the Group recorded a loss in 2008. For the Year, turnover of the Group was approximately HK$519,900,000, representing a decrease of approximately 51% from that of approximately HK$1,065,900,000 for the previous year. Gross profit was approximately HK$30,300,000, representing a decline of approximately 48% from that of approximately HK$58,600,000 for the previous year. The overall gross profit margin increased from approximately 5.5% to approximately 5.8%. Loss for the Year attributable to ordinary equity holders of the Company was approximately HK$112,500,000 (for the same period of last year: approximately HK$115,100,000). Basic loss per share attributable to ordinary equity holders of the Company was approximately HK28.1 cents (for the same period of last year: approximately HK28.8 cents). As at the balance sheet date, the balance of cash and cash equivalents and pledged deposits were approximately HK$42,900,000 and approximately HK$57,700,000 respectively.

Chairman's Statement

The Board has proposed not to pay a final dividend for the year ended 31 December 2008 (2007: Nil).

Being innovative, having improvements and making adjustments are crucial in the face of global financial crisis. As the weakening overseas markets may not be able to recover in the near future, the Group is actively shifting its focus from its export business to domestic sales. It has begun to expand the domestic market in the PRC while looking forward to an upturn in the overseas markets. The Group will endeavour to reduce cost, launch quality products to cope with consumer demands and develop new products. In the wake of the lowering cost of upstream materials, the stable prices of panel and the staunch support from the panel suppliers, the Group will be able to maintain a lower, more stable and controllable cost of its LCD CTVs. The Group will co-operate with customers' brands to expand into the second- and third-tier markets and promote affordable and quality LCD CTVs to some second-tier cities and suburbs with higher spending powers. In the meantime, the Group will also consolidate its video products and promote advanced export products in the domestic market, so as to introduce new and stylish products with good value for money and high market acceptance.

The management believes that with continual hard work, the Group will be able to strengthen its competitiveness and expose itself to greater investment opportunities, thereby providing the best returns to shareholders.

On behalf of the Board, I would like to extend my gratitude to all of our customers, suppliers, business partners and shareholders for their trust and support for the Group and to the staff of the Group for their dedication and loyalty.

By Order of the Board
Mitsumaru East Kit (Holdings) Limited
Zhang Shuyang
Chairman

Hong Kong, 20 April 2009

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

This year, the Group achieved approximately HK$519,900,000 in turnover, representing a decrease of approximately 51% from that of approximately HK$1,065,900,000 in the previous year. The gross profit was approximately HK$30,300,000 representing a decrease of approximately 48% from that of approximately HK$58,600,000 in the previous year. The loss for the year attributable to equity holders of the Company was approximately HK$112,500,000. Last year, the loss for the year attributable to equity holders of the Company was approximately HK$115,100,000. Basic loss per share attributable to ordinary equity holders of the Company was approximately HK28.1 cents. Last year, the basic loss per share attributable to ordinary equity holders of the Company was HK28.8 cents. As at the balance sheet date, balance of cash and cash equivalents and pledged deposits were approximately HK$42,900,000 and HK$57,700,000, respectively.

Turnover

For the year ended 31 December 2008, the Group's turnover was approximately HK$519,900,000, a decrease of approximately 51% as compared with the previous year. The decrease was mainly attributable to overall shrinking global demand in CTV products.

Geographically, the PRC and Asian countries are the major markets of the Group. The Group's turnover generated from Asian markets (including the PRC) decreased from approximately HK$666,900,000 for the year ended 31 December 2007 to approximately HK$332,600,000 for the year ended 31 December 2008, representing a decrease of approximately 50%. Among others, the performance of South America is the most disappointing market. The turnover was dropped by approximately 84% from approximately HK$160,600,000 for the year ended 31 December 2007 to approximately HK$26,100,000 for the year ended 31 December 2008.

Gross Profit Margin

Owing to the drop in selling prices of CTV products, combined with increases in the cost of some raw material and components, the gross profit margin of CTVs are generally declined. Our gross profit margin still maintained at 5.8% which is similar to the margin of 5.5% in last year, mainly because the reversal of written-down of inventory provided in 2007.

Expenses

The Group's selling and distribution costs raised from approximately HK$15,900,000 in 2007 to approximately HK$21,300,000 during the Year. The increases of its selling and distribution costs was primarily attributable to unexpected issues in delivery of goods, which resulted higher flight charges in 2008.

During 2008, the administrative expenses increased from approximately HK$56,900,000 in 2007 to approximately HK$64,900,000 during the Year, primarily because of the increase in the legal and professional charges, losses in equity investments and the taken up of underprovision for last year auditors remuneration.

The decrease in its financial expenses was mainly due to decrease in interest expenses. The decrease in interest expenses was mainly caused by reduction of loan balance.

Management Discussion and Analysis

Financial Position and Liquidity

	31 December 2008	31 December 2007
Current ratio	**0.64**	0.91
Quick ratio	**0.51**	0.71
Gearing ratio*	**6%**	20%

* Gearing ratio = Total interest-bearing borrowings over total assets

The Group's operations are mainly financed by internally generated cash flows and banking facilities provided by banks. For the year ended 31 December 2008, the Group generated approximately HK$25,400,000 (2007 (restated): approximately HK$4,400,000) of cash from its operations. As at 31 December 2008, the Group had cash and cash equivalents of approximately HK$42,900,000 (31 December 2007: approximately HK$71,500,000). The decrease in cash and cash equivalents was mainly due to the repayment of excessive bank loan of the Group to reduce financial cost thereon.

As at 31 December 2008, shareholders' equity was approximately HK$4,100,000 (31 December 2007: approximately HK$99,800,000). Current assets of the Group amounted to approximately HK$245,300,000 (31 December 2007: approximately HK$563,500,000). The current ratio and quick ratio were approximately 0.64 and 0.51 (31 December 2007: approximately 0.91 and 0.71) respectively.

As at 31 December 2008, the Group's bank and other borrowings amounted to approximately HK$24,700,000 (31 December 2007: approximately HK$148,200,000) and the gearing ratio, representing the ratio of total borrowings to total assets, decreased to approximately 6% in 2008 from approximately 20% in 2007. Approximately HK$17,000,000 (less than 69% of the borrowings) borne fixed interest rate and the effective interest rate was 6.7%. Those bank borrowings were denominated in Renminbi ("RMB") (approximately RMB15,000,000).

Trade and notes receivables decreased from approximately HK$255,400,000 as at 31 December 2007 to approximately HK$74,300,000 as at 31 December 2008. During the Year, approximately HK$49,300,000 was provided for impairment losses.

Capital Expenditure

The Group's total capital expenditures on property, plant and equipment and investment properties during the Year amounted to approximately HK$1,400,000 (2007: HK$12,100,000).

Pledge of Assets

At 31 December 2008, certain assets of the Group with an aggregate carrying value of approximately HK$82,000,000 (2007: HK$98,300,000) were pledged to secure banking facilities of the Group. Details of the pledge of the Group's assets are set out as follows:

(a) pledge over the Group's plant and machinery, which had an aggregate carrying value at the balance sheet date of approximately HK$5,300,000 (2007: HK$6,900,000);

Management Discussion and Analysis

(b) all leasehold land and buildings situated in Hong Kong with aggregate carrying value of approximately HK$27,500,000 as at 31 December 2007, being pledged to secure mortgage loan, were fully disposed of during the year;

(c) pledge over the Group's leasehold land and buildings situated in the PRC, which has an aggregate carrying value at the balance sheet date of approximately HK$68,200,000 (2007: HK$53,800,000). The related leasehold land element of HK$8,500,000 (2007: HK$8,200,000) is included in the "prepaid land premiums";

(d) mortgage over the Group's investment properties situated in Hong Kong with aggregate carrying value of approximately HK$1,900,000 as at 31 December 2007. The investment properties were disposed of during the year.

Foreign Exchange Risk

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong Dollars ("HK$"), Renminbi ("RMB") and United States Dollars ("US$"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against RMB and US$. Considering that the HK$ is pegged to the US$, the Group believes its exposure to exchange risk will be confined to RMB and HK$ and that will be minimal. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly monitor the economic situation and its foreign exchange risk position, and will consider appropriate hedging measures in future as may be necessary.

Capital Commitments and Contingent Liabilities

During the Year, the Group's capital commitments amounted to approximately HK$810,000 which is the same as last year. As at 31 December 2008, the Group had no material contingent liabilities.

Employees Benefit and Expenses

As at 31 December 2008, the total number of employees in the Group was approximately 708 (31 December 2007: approximately 995). The total amount of employee wages incurred during the Year was approximately HK$55,500,000 (2007: approximately HK$58,900,000). The Group determines employees' remuneration by the work responsibilities, job performance and professional experience. The Group also provides employees on-job training from time to time to upgrade their knowledge, skills and overall caliber of its employees. In addition, the Group granted employees option scheme as an encouragement.

BUSINESS REVIEW

In 2008, the Group was engaged in selling primarily CRT CTVs and LCD CTVs, in three categories, namely, complete knocked down ("CKD"), semi-knocked down ("SKD") and completely built unit ("CBU"). During the Year, the Group sold more than 150,000 CRT CTVs, representing a decrease of approximately 50% from that of year 2007, and sold more than 180,000 LCD CTVs, almost no change from year 2007. The proportion of LCD CTVs sales of the Group increased. The Group's CRT CTVs were mainly sold to newly emerging markets such as India, Russia, the Middle East, Asia and South America. Its LCD CTVs were primarily sold in developed countries and regions including Europe, North America and Asia.

Management Discussion and Analysis

The Board believes that the Group's financial performance of year 2008 was poor and materially affected by: (1) the increasing pressure on profit margins due to a reduction in the selling price of CTV products and an escalating cost of certain raw materials and components, wage overheads as well as logistics and transportation costs; (2) the decrease in the international market demand; (3) the loss on foreign exchange; and (4) the macro-economic downturn and the global financial turmoil in the latter half of 2008.

Because of operating losses and the Group's overall strategic adjustment, the Group closed a wholly owned subsidiary, namely, Shanghai Mitsumaru Automotive Electronics Company Limited during the Year. In 2009, the Group further transferred 100% share equity in a wholly owned subsidiary, namely, Crown Joint Investment Limited to a third party. The Group also disposed certain properties situated in Hong Kong and Shanghai in order to supplement working capital needed for the Group's operation by disposal of non-core assets.

OUTLOOK

According to DisplaySearch, as impacted by the financial turmoil, in 2009, the growth in output of LCD CTVs is estimated to be a mere 2% in some developed countries or regions such as Japan, North America and Western Europe. On the other hand, despite the impact of the financial turmoil, the growth in output of LCD CTVs for developing countries or regions is expected to reach 45% due to the falling prices of LCD CTVs. However, such estimated growth is lower than that of 68% in 2008.

As a company focusing on export business, the Group recorded a tumbling sales amid global financial turmoil in late 2008. In such unfavourable condition in exports, the Group managed to took timely actions to adjust its corporate strategies and begin its focus on the domestic market to pursue sales development. In the PRC, the flat panel CTVs have gained wide acceptance in first- and second-tier markets, and the major growth is seen in third- and fourth-tier markets. The Group co-operates with customers' brands with a focus on second-tier brands as well as customers in both second-tier cities and suburbs. While dedicating to develop the domestic market, the Group also actively prepares its export products. With such preparation, the Group will be able to benefit from the recovery of export markets in the future and make a significant breakthrough in the sales of LCD CTVs.

With the falling prices of steel and nonferrous metals, the cost of household appliances with major materials of such metals could be lowered. Under the uncertainties of the global economy, the Group adopts policies of controlling production based on sales performance and stringent inventory control measures, so as to minimise the impact of the fluctuations in material prices. In view of the fact that the cost of panels is the largest portion of the price composition of flat panel CTVs and that the decision of flat panel CTV manufacturers on price adjustment to flat panel CTVs is substantially based on the price trend of panels, the Group closely monitors the price trend of panels and is dedicated to maintain a solid strategic relationship with panel suppliers.

Sales of the Group's LCD CTVs are oriented on small to medium size products, with innovative technology as the selling point. Competitive price strategy is adopted to maximise market share. The Group has implemented the integration in purchases and sales of key components of LCD CTVs so as to achieve lower cost and faster response to the changing market.

In addition, the Group will consistently focus on the integration of video products and roll out new fashion products with better cost-efficiency in order to cater for various customers' needs.

DIVIDENDS

The Directors do not recommend payment of any dividend for the year ended 31 December 2008 (2007: Nil).

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Zhang Shuyang, aged 55, the founder of the Group, is an Executive Director and the Chairman of the Group as well as the Chief Executive Officer and the Chairman of the Management Committee of the Group. Mr. Zhang graduated from East China Normal University, majoring in Computer Science. Apart from his experience and technical knowledge in the television industry, Mr. Zhang has over twenty years of experience in management gained from various local and overseas electronics trading companies in Hong Kong and the PRC before founding East Kit Electronic (China) Company Limited in 1993. He is currently responsible for overall strategic planning of the Group. Mr. Zhang was appointed as the Director on 13 February 2004.

Mr. Leung Koon Sing, aged 49, is an Executive Director as well as a member of the Management Committee of the Group. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Arts in 1982. Mr. Leung has over twenty years of experience as a commercial banker, an investment banker as well as an operator. He is currently responsible for the overall management of the Group and overseeing the daily operation and management of Mitsumaru (H.K.) Limited. Mr. Leung joined the Group and was appointed as the Director on 1 August 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Ping Man, aged 44, was appointed as an Independent Non-executive Director on 6 March 2009. Mr. Kwong is a Certified Practising Accountant of the Australian Society of Certified Practising Accountants, an associate member of Hong Kong Institute of Certified Public Accountants and an associate member of Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. Mr. Kwong graduated from Curtin University of Technology, Western Australia with a Bachelor's degree in Commerce (Accounting) in 1996. He further obtained a Master's degree in Professional Accounting from the Hong Kong Polytechnic University in 2003. Mr. Kwong is currently a Director of O'Park Corporate Services Limited. He has accumulated extensive experience in accounting and administration fields. He is also an Independent Non-executive Director of Yueshou Environmental Holdings Limited (Stock Code: 01191) and Century Sunshine Group Holdings Limited (Stock Code: 00509). Mr. Kwong was the Financial Controller & Company Secretary of Karce International Holdings Company Limited (Stock Code: 01159) from June 2008 to January 2009, the Financial Controller & Company Secretary of Kanstar Environmental Paper Products Holdings Limited (Stock Code: 08011) from March 2006 to July 2007, the Chief Financial Officer of Nanjing Intelligent Apparatus Company Limited from May 2003 to June 2005, and the Chief Financial Officer of Sinobest Technology Holdings Limited from September 2000 to April 2003.

Mr. Martin He, aged 45, was appointed as an Independent Non-executive Director on 27 August 2008. Mr. He has obtained a Master of Finance degree at the University of Toronto as well as Master of Management and Bachelor of International Economics degree at the Peking University. Mr. He has over eighteen years of working experience in private equity, investment banking, corporate finance, management of listed company, as well as experience in the media industry. Mr. He is one of the founders and Managing Director of Zensation Capital Limited, a Hong Kong based business and financial consulting company. Mr. He was the Chief Investment Officer of Nuovo Assets Ltd., a Hong Kong based venture capital fund, and an Executive Director of Laidlaw Pacific (Asia) Limited, Hong Kong. Prior to his immigration to Hong Kong from Canada in 1997, Mr. He was the Executive Director and Deputy General Manager of Worldtek Inc., a public company listed in the Toronto Stock Exchange, Canada.

Directors and Senior Management Profiles

Mr. Mu Xiangming, aged 54, was appointed as an Independent Non-executive Director on 15 June 2007. Mr. Mu graduated from Fudan University with a Bachelor's Degree of Laws, and further with a Degree in L.L.M. of University of Oregon Law School. Mr. Mu was a member of Shanghai Municipal Government Foreign Economic Trade Committee from 1983 to 1986 and a practicing lawyer in a US law firm for nearly four years. He has been a Partner and Director of Shanghai Ming and Yuan Law Firm since 1997, with experience in commercial and criminal matters.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Cheng Sik Kong, aged 43, is the Company Secretary and Qualified Accountant of the Group. Mr. Cheng holds a Master's degree of Science in Accountancy from The Hong Kong Polytechnic University. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheng has over ten years of experience in accounting, auditing and financial control. He is currently responsible for the financial planning of the Group. Mr. Cheng joined the Group in May 2006 and was appointed as the Company Secretary and Qualified Accountant of the Company on 20 February 2008.

SENIOR MANAGEMENT

Mr. Han Shiquan, aged 59, is the Chief Operating Officer of the Group as well as a member of the Management Committee of the Group. Mr. Han graduated from the Faculty of Electronics Engineering of School of Electronic Instrument of East China Normal University, majoring in Radio Technology. Mr. Han was endorsed as a Senior Engineer by Shanghai Instrument and Telecommunications Industrial Bureau. He has extensive experience in the electronics and electrical appliance industries and is currently responsible for overseeing the daily operation and management of the Group. He is also the President of East Kit Electronic (Shanghai) Company Limited as well as a Director of Cyber Opto-Electronical Technology Company Limited. Mr. Han joined the Group in October 1994.

Mr. Li Zhongyi, aged 54, is the Assistant General Manager of the Group as well as a member of the Management Committee of the Group. Mr. Li graduated from Beijing Economy and Management Distance Learning University and once worked in Chunlan Group. He has extensive experience in the household electrical appliance industry, and is currently responsible for the Group's sales of LCD TVs in the domestic market. He is also the General Manager of East Kit Electronic (Shanghai) Company Limited. Mr. Li joined the Group in December 2006.

Mr. Shao Zhibin, aged 42, is the Assistant General Manager of the Group and the General Manager of the Business Unit of the Group as well as a member of the Management Committee of the Group. Mr. Shao graduated from Xi'an Electronics Science and Technology University, majoring in Graphic Transmission and Processing, Information Engineering. Mr. Shao has extensive experience in the home electrical appliance industry, and is currently responsible for the daily operation and management of the Business Unit and Sales and Marketing Unit of the Group. Mr. Shao joined the Group in February 1998.

Mr. Zhao Yuan, aged 46, is the General Manager of the Sales and Marketing Unit of the Group as well as a member of the Management Committee of the Group. Mr. Zhao graduated from Shanghai University of Technology with a Bachelor's Degree, majoring in Physics. Mr. Zhao has extensive experience in the sales of home electrical appliance, and is currently responsible for sales and marketing of the products of the Group. Mr. Zhao joined the Group in March 1993.

Mr. Gu Jinliang, aged 54, is the General Manager of the General Affairs Unit of the Group as well as a member of the Management Committee of the Group. Mr. Gu graduated from Tokyo Tertiary Management Institute, majoring in Finance. He has extensive experience in management, and is currently responsible for the daily operation and management of the General Affairs Unit of the Group. Mr. Gu joined the Group in August 1995.

Directors and Senior Management Profiles

Mr. He Liangsheng, aged 52, is the Supervisor of Directors' Office of the Group as well as a member of the Management Committee of the Group. Mr. He graduated from Shanghai Education Institute, majoring in Educational Management. In November 2006, he further obtained the Certificate of Senior Professional Manager qualified by Ministry of Labour and Social Security of the People's Republic of China. Mr. He has extensive experience in the field of management, and is currently responsible for the daily operation and management of Mitsumaru Electronic (Wuhu) Company Limited. He is also the President and General Manager of Mitsumaru Electronic (Wuhu) Company Limited as well as the President of East Kit Electronic (China) Company Limited. Mr. He joined the Group in September 1994.

Mr. Xu Chengbo, aged 54, is the General Manager of the Sales Center of the Group as well as a member of the Management Committee of the Group. Mr. Xu graduated from Shanghai Jiaotong University Evening University with a Bachelor's degree in Engineering, majoring in Electronic Technology. He studied at Hawthorn Institute of Education since 1990 and subsequently worked for Ziegler Patterns P/L. Mr. Xu is currently responsible for the sales of LCD TVs of the Group in Chinese domestic market. Mr. Xu joined the Group in October 1993.

Former Directors and Senior Management Profiles

EXECUTIVE DIRECTOR

Mr. Tung Chi Wai, Terrence, aged 42, was appointed as the Director on 13 February 2004 and his office was expired on 25 September 2008. Mr. Tung graduated from University of Manitoba, Canada with a Bachelor's degree in Science (Electrical Engineering). Before co-founding Mitsumaru (Holdings) Limited with Mr. Zhang in 1994, he had over ten years of experience in sales and management in the electronics and television industries.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ede Hao Xi, Ronald, aged 50, was appointed as an Independent Non-executive Director on 19 June 2004 and resigned from his position on 12 June 2008. Mr. Ede graduated from University of Hawaii in 1984 with a Bachelor's Degree in Business Administration, majoring in Accountancy, and obtained a Master's Degree in Business Administration from University of Washington in 1988. Mr. Ede was a licensed certified public accountant in the United States. Mr. Ede had extensive experience serving in the capacity as the Financial Controller or Managing Director in United States based multinational hi-tech manufacturing companies. Mr. Ede also worked in various management positions for companies ranging from international bank, to international accounting and consultancy firms.

Mr. Li Yueh Chen, aged 60, was appointed as an Independent Non-executive Director on 19 June 2004 and resigned from his position on 12 June 2008. Mr. Li graduated from Chiao Tung University, Hsinchu and Taiwan University, Taipei, Taiwan with a Bachelor's Degree in Electro-physics and a Master's Degree in Electrical Engineering, respectively. Mr. Li had extensive experience gained from various multinational organisations specialising in advanced technology, venture investment and asset management.

Mr. Selwyn Mar, aged 73, was appointed as an Independent Non-executive Director on 12 June 2008 and resigned from his position on 7 July 2008. Mr. Mar graduated from the London School of Economics, University of London. Mr. Mar was a fellow member of the Institute of Chartered Accountants of United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Mar had been actively involved in professional, commercial and industrial undertakings over the past forty years.

Mr. Lam Chun, Daniel, aged 63, was appointed as an Independent Non-executive Director on 23 June 2008 and resigned from his position on 12 July 2008. Mr. Lam was an Authorized Person under the Building Ordinance and a Registered Professional Surveyor. Mr. Lam was a fellow member of the Royal Institution of Chartered Surveyors and the Chartered Institute of Arbitrators, a fellow member and the past President (1986–1987) of the Hong Kong Institute of Surveyors, and a fellow member and the past Chairman (1997–2000) of the Hong Kong Institute of Arbitrators. Mr. Lam had over thirty years of experience in the surveying profession.

Mr. Chiu Chi Cheong Clifton, aged 54, a certified accountant in the U.S.A., was appointed as an Independent Non-executive Director on 27 August 2008 and resigned from his position on 23 December 2008. Mr. Chiu graduated from the University of Southern California with a MBA degree in 1977. Mr. Chiu had accumulated extensive experience in international finance, securities and accounting. Mr. Chiu was the Vice Chairman of the Takeovers and Mergers Panel of the Securities and Futures Commission from January 1996 to March 2008, and a member of Shenzhen Political Consultative Committee, the Vice Chairman of the Listing Committee of the Main Board and the Growth Enterprises Market of Stock Exchange.

Former Directors and Senior Management Profiles

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Pun Wai, aged 37, was appointed as the Company Secretary and the Qualified Accountant of the Company on 22 June 2004 and resigned from his position on 20 February 2008. Mr. Pun graduated from Hong Kong Baptist University, majoring in Business Administration (Accountancy). Mr. Pun was an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Pun had over ten years of experience in the audit and accounting profession.

SENIOR MANAGEMENT

Mr. Huang Pengzhan, aged 39, was the General Manager of the R&D Division of the Group as well as a member of the Management Committee of the Group, and resigned from his position on 31 March 2008. Mr. Huang graduated from the Faculty of Electrical Engineering of Tong Ji University with a Bachelor's Degree in Engineering. He further obtained a Master's Degree in Business Administration from Jiao Tong University. He had over ten years of experience in the television industry.

Mr. Fei Zhaodong, aged 51, was the Assistant to the General Manager of the Supply Chain Management Division of the Group, and resigned from his position on 21 February 2008. Mr. Fei graduated from Jiangsu Radio and TV University, majoring in Management Engineering. Mr. Fei had extensive experience in the household electrical appliance industry.

Mr. Wang Cheng, aged 41, was the General Manager of the LCD Chassis Division of the Group, and resigned from his position on 20 March 2009. Mr. Wang graduated from the Faculty of Electronic Engineering of Changchun School of Optical Precision Engineering, majoring in Applied Electronics Technology. Mr. Wang had extensive technical knowledge and experience in the household electrical appliance industry.

Mr. Zhang Beizhan, aged 40, was the Standing Associate General Manager of the LCD Chassis Division of the Group as well as a member of the Management Committee of the Group, and resigned from his position on 20 March 2009. Mr. Zhang graduated from Xi'an Electronics Technology University, majoring in Information Engineering. He had extensive technical knowledge and experience in television manufacturing industry.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance practice for enhancing accountability and transparency of the Company to the investors and the shareholders. Following the issue of the "Code of Corporate Governance Practices" (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company reviews its corporate governance practices from time to time to ensure they meet the requirement of the Corporate Governance Code. Pursuant to the Listing Rules, listed companies are required to include in their annual report a report on corporate governance practices during the accounting period, including compliance with the Corporate Governance Code.

For the financial year ended 31 December 2008, the Company has complied with all the code provisions in the Corporate Governance Code except for the requirement that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (code provision A.2.1 of the Corporate Governance Code).

THE BOARD OF DIRECTORS

Composition of the Board

During the financial year ended 31 December 2008, composition of the Board was:

	Appointment Date	Resignation/ Cessation Date
Executive Directors:		
Mr. Zhang Shuyang	13 February 2004	—
Mr. Tung Chi Wai, Terrence	13 February 2004	25 September 2008
Mr. Leung Koon Sing	1 August 2008	—
Independent Non-executive Directors:		
Mr. Ede Hao Xi, Ronald	19 June 2004	11 June 2008
Mr. Li Yueh Chen	19 June 2004	11 June 2008
Mr. Mu Xiangming	15 June 2007	—
Mr. Selwyn Mar	12 June 2008	7 July 2008
Mr. Lam Chun, Daniel	23 June 2008	12 July 2008
Mr. Chiu Chi Cheong Clifton	27 August 2008	23 December 2008
Mr. Martin He	27 August 2008	—
Mr. Kwong Ping Man	6 March 2009	—

To the best knowledge of the Company, there are no financial, business, family or other material/relevant relationships among members of the Board.

Corporate Governance Report

Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Company is Mr. Zhang Shuyang, who, in his capacity of Chairman of the Board, provides leadership to the Board, and ensures that the Board is properly briefed on issues arising at board meetings and receives timely, accurate and complete information for the Board's consideration.

Code provision A.2.1 of the Corporate Governance Code requires the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company deviated from the code provision, as the Chairman and the Chief Executive Officer of the Company are performed by the same individual, Mr. Zhang Shuyang. The Board considers that this structure will enable the Group to make and implement decisions promptly and efficiently and will not impair the operation of the Company. The Board will keep this structure under review regularly.

Independent Non-executive Directors

More than one third of the Board comprises Independent Non-executive Directors. None of the Directors is related to one another. Mr. Kwong Ping Man possesses accounting and related financial management expertise.

The Independent Non-executive Directors, Mr. Martin He and Mr. Mu Xiangming, have entered into service contracts with the Company for a term of two years, subject to re-election by shareholders at the annual general meeting of the Company at least once every three years by rotation. The Independent Non-executive Director, Mr. Kwong Ping Man, has entered into a service contract with the Company for a term of one year, subject to re-election by shareholders at the annual general meeting of the Company at least once every three years by rotation. No Director has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received written annual confirmation from each Independent Non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three Independent Non-executive Directors are independent.

The Role of the Board

The Board is primarily responsible for the leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the affairs of the Group.

The Board meets regularly, and all members of the Board are given complete, timely and reliable information in relation to the affairs of the Group, and receive the support from and access to the Company Secretary in respect of all meetings of the Board. Each is afforded access, on his request, to senior management of the Group and to independent legal advice. All Directors receive briefings and professional development training as necessary to ensure a proper understanding of the business of the Group and their responsibilities under statute and at common law.

Corporate Governance Report

During the financial year ended 31 December 2008, ten Board meetings were held and the individual attendance of each Director is set out below:

Category of Director	Name of Directors	Number of Board Meetings Attended	Attendance Rate
Executive Directors	Mr. Zhang Shuyang	10/10	100.00%
	Mr. Tung Chi Wai, Terrence (ceased on 25 September 2008)	7/8	87.50%
	Mr. Leung Koon Sing (appointed on 1 August 2008)	6/6	100.00%
Independent Non-executive Directors	Mr. Ede Hao Xi, Ronald (ceased on 11 June 2008)	3/3	100.00%
	Mr. Li Yueh Chen (ceased on 11 June 2008)	3/3	100.00%
	Mr. Mu Xiangming	9/10	90.00%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	1/1	100.00%
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	1/1	100.00%
	Mr. Chiu Chi Cheong Clifton (appointed on 27 August 2008 and resigned on 23 December 2008)	2/2	100.00%
	Mr. Martin He (appointed on 27 August 2008)	2/2	100.00%
	Mr. Kwong Ping Man (appointed on 6 March 2009)	—	—
Average attendance rate			**97.75%**

The number of the Independent Non-executive Directors in the Board fell below the minimum number and/or appropriate accounting expertise requirement as required by Rule 3.10 of the Listing Rules during the courses of 12 June 2008 to 22 June 2008, 7 July 2008 to 26 August 2008 and 23 December 2008 to 5 March 2009. The Company actively identified suitable candidates for appointment as Independent Non-executive Directors so as to meet requirements under Rule 3.10 of the Listing Rules within three months from the dates on which the number of Independent Non-executive Directors fell below the minimum number and/or appropriate accounting expertise requirement under Rule 3.10 of the Listing Rules as required under Rule 3.11 of the Listing Rules.

Corporate Governance Report

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee was established on 22 June 2004, and on 25 April 2007 the Board adopted specific written terms of reference setting out the authority and duties of the Audit Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Audit Committee is to make recommendations to the Board on the appointment and removal of auditors, review the Group's financial statements, financial controls, internal controls and risk management system.

During the financial year ended 31 December 2008, the composition of the Audit Committee has been:

Period		
From	**To**	**Audit Committee Members**
1 January 2008	11 June 2008	Mr. Ede Hao Xi, Ronald (Chairman) Mr. Mu Xiangming Mr. Li Yueh Chen
12 June 2008	22 June 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming
23 June 2008	7 July 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming Mr. Lam Chun, Daniel
8 July 2008	12 July 2008	Mr. Mu Xiangming Mr. Lam Chun, Daniel
13 July 2008	26 August 2008	Mr. Mu Xiangming
27 August 2008	23 December 2008	Mr. Chiu Chi Cheong Clifton (Chairman) Mr. Martin He Mr. Mu Xiangming
24 December 2008	5 March 2009	Mr. Martin He Mr. Mu Xiangming
6 March 2009	—	Mr. Kwong Ping Man (Chairman) Mr. Martin He Mr. Mu Xiangming

The Audit Committee currently comprises of three members, all of whom are Independent Non-executive Directors. The Audit Committee is chaired by Mr. Kwong Ping Man, who possesses accounting and related financial management expertise. The members of the Audit Committee are Mr. Martin He and Mr. Mu Xiangming.

The number of the Independent Non-executive Directors and the Audit Committee member fell below the minimum number and/or appropriate accounting expertise requirement as required by Rule 3.10 and 3.21 of the Listing Rules during the courses of 12 June 2008 to 22 June 2008, 7 July 2008 to 26 August 2008 and 23 December 2008 to 5

Corporate Governance Report

March 2009. The Company actively identified suitable candidates for appointment as Independent Non-executive Directors and Audit Committee members so as to meet requirements under Rule 3.10 and 3.21 of the Listing Rules within three months from the dates on which the number of Independent Non-executive Directors fell below the minimum number and/or appropriate accounting expertise requirement under Rule 3.10 and 3.21 of the Listing Rules as required under Rule 3.11 and 3.23 of the Listing Rules.

During 2008, the Audit Committee reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008. The Audit Committee also considered proposals made by the Company's ex-auditor Ernst & Young, arising out of its audit of the Group for the 2007 financial year.

During the financial year ended 31 December 2008, the Audit Committee held three meetings, and the table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Audit Committee Meetings Attended	Attendance Rate
Independent Non-executive Directors	Mr. Ede Hao Xi, Ronald (ceased on 11 June 2008)	1/1	100.00%
	Mr. Li Yueh Chen (ceased on 11 June 2008)	1/1	100.00%
	Mr. Mu Xiangming	1/3	33.33%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	1/1	100.00%
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	1/1	100.00%
	Mr. Chiu Chi Cheong Clifton (appointed on 27 August 2008 and resigned on 23 December 2008)	1/1	100.00%
	Mr. Martin He (appointed on 27 August 2008)	1/1	100.00%
	Mr. Kwong Ping Man (appointed on 6 March 2009)	—	—
Average attendance rate			**90.48%**

Remuneration Committee

The Remuneration Committee was established on 12 December 2005, and on 25 April 2007 the Board adopted specific written terms of reference setting out the authority and duties of the Remuneration Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the compensation arrangements relating to dismissal or removal of Directors to ensure that such arrangements are in accordance with the relevant contractual terms or are otherwise reasonable and appropriate.

Corporate Governance Report

During the financial year ended 31 December 2008, the composition of the Remuneration Committee has been:

Period		
From	**To**	**Remuneration Committee Members**
1 January 2008	11 June 2008	Mr. Mu Xiangming (Chairman) Mr. Li Yueh Chen Mr. Ede Hao Xi, Ronald Mr. Tung Chi Wai, Terrence
12 June 2008	22 June 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming Mr. Tung Chi Wai, Terrence
23 June 2008	7 July 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming Mr. Lam Chun, Daniel Mr. Tung Chi Wai, Terrence
8 July 2008	12 July 2008	Mr. Mu Xiangming Mr. Lam Chun, Daniel Mr. Tung Chi Wai, Terrence
13 July 2008	26 August 2008	Mr. Mu Xiangming Mr. Tung Chi Wai, Terrence
27 August 2008	25 September 2008	Mr. Martin He (Chairman) Mr. Chiu Chi Cheong Clifton Mr. Mu Xiangming Mr. Tung Chi Wai, Terrence
26 September 2008	20 October 2008	Mr. Martin He (Chairman) Mr. Chiu Chi Cheong Clifton Mr. Mu Xiangming
21 October 2008	23 December 2008	Mr. Martin He (Chairman) Mr. Chiu Chi Cheong Clifton Mr. Mu Xiangming Mr. Leung Koon Sing
24 December 2008	5 March 2009	Mr. Martin He (Chairman) Mr. Mu Xiangming Mr. Leung Koon Sing
6 March 2009	—	Mr. Martin He (Chairman) Mr. Kwong Ping Man Mr. Mu Xiangming Mr. Leung Koon Sing

Corporate Governance Report

The Remuneration Committee currently comprises of four members and is chaired by Mr. Martin He (Independent Non-executive Director). The other members of the Remuneration Committee are Mr. Kwong Ping Man (Independent Non-executive Director), Mr. Mu Xiangming (Independent Non-executive Director) and Mr. Leung Koon Sing (Executive Director). Accordingly, the Remuneration Committee comprises a majority of Independent Non-executive Directors.

During the financial year ended 31 December 2008, the Remuneration Committee held one meeting during which the Committee reviewed the Group's existing emolument policy and recommended to the Board of the Directors' remuneration in accordance with the provisions of the corresponding service contract. No Director was involved in deciding his own remuneration at the meeting of the Remuneration Committee. The table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Remuneration Committee Meetings Attended	Attendance Rate
Independent Non-executive Directors	Mr. Ede Hao Xi, Ronald (ceased on 11 June 2008)	—	—
	Mr. Li Yueh Chen (ceased on 11 June 2008)	—	—
	Mr. Mu Xiangming	0/1	0.00%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	—	—
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	—	—
	Mr. Chiu Chi Cheong Clifton (appointed on 27 August 2008 and resigned on 23 December 2008)	—	—
	Mr. Martin He (appointed on 27 August 2008)	1/1	100.00%
	Mr. Kwong Ping Man (appointed on 6 March 2009)	—	—
Executive Directors	Mr. Tung Chi Wai, Terrence (ceased on 25 September 2008)	—	—
	Mr. Leung Koon Sing (appointed on 1 August 2008)	1/1	100.00%
Average attendance rate			**66.67%**

Nomination Committee

The Nomination Committee was established on 12 December 2005, and on 25 April 2007 the Board adopted specific written terms of reference setting out the authority and duties of the Nomination Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Nomination Committee is to review the composition of the Board, select, identify and recommend to the Board suitable candidates to be Directors, and assess the independence of Independent Non-executive Directors.

Corporate Governance Report

During the financial year ended 31 December 2008, the composition of the Nomination Committee has been:

Period		
From	**To**	**Nomination Committee Members**
1 January 2008	11 June 2008	Mr. Li Yueh Chen (Chairman) Mr. Mu Xiangming Mr. Ede Hao Xi, Ronald Mr. Zhang Shuyang
12 June 2008	22 June 2008	Mr. Mu Xiangming (Chairman) Mr. Selwyn Mar Mr. Zhang Shuyang
23 June 2008	7 July 2008	Mr. Mu Xiangming (Chairman) Mr. Selwyn Mar Mr. Lam Chun, Daniel Mr. Zhang Shuyang
8 July 2008	12 July 2008	Mr. Mu Xiangming (Chairman) Mr. Lam Chun, Daniel Mr. Zhang Shuyang
13 July 2008	26 August 2008	Mr. Mu Xiangming (Chairman) Mr. Zhang Shuyang
27 August 2008	23 December 2008	Mr. Mu Xiangming (Chairman) Mr. Chiu Chi Cheong Clifton Mr. Martin He Mr. Zhang Shuyang
24 December 2008	5 March 2009	Mr. Mu Xiangming (Chairman) Mr. Martin He Mr. Zhang Shuyang
6 March 2009	—	Mr. Mu Xiangming (Chairman) Mr. Kwong Ping Man Mr. Martin He Mr. Zhang Shuyang

The Nomination Committee currently comprises of four members, and is chaired by Mr. Mu Xiangming (Independent Non-executive Director). The other members of the Nomination Committee are Mr. Kwong Ping Man (Independent Non-executive Director), Mr. Martin He (Independent Non-executive Director) and Mr. Zhang Shuyang (Executive Director). Accordingly, the Nomination Committee comprises a majority of Independent Non-executive Directors.

Corporate Governance Report

During the financial year ended 31 December 2008, the Nomination Committee held one meeting during which the Nomination Committee reviewed the qualifications and the performance of the current Directors and the composition of the Board, assessed the independence of Independent Non-executive Directors and recommended to the Board on relevant matters relating to the appointment of senior management. The table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Nomination Committee Meetings Attended	Attendance Rate
Independent Non-executive Directors	Mr. Ede Hao Xi, Ronald (ceased on 11 June 2008)	—	—
	Mr. Li Yueh Chen (ceased on 11 June 2008)	—	—
	Mr. Mu Xiangming	0/1	0.00%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	—	—
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	—	—
	Mr. Chiu Chi Cheong Clifton (appointed on 27 August 2008 and resigned on 23 December 2008)	—	—
	Mr. Martin He (appointed on 27 August 2008)	1/1	100.00%
	Mr. Kwong Ping Man (appointed on 6 March 2009)	—	—
Executive Director	Mr. Zhang Shuyang	1/1	100.00%
Average attendance rate			**66.67%**

INTERNAL CONTROL REVIEW

The Board is committed to ensuring that the Group maintains sound and effective internal controls to safeguard shareholders' investment and the Group's assets. The Board has engaged an independent accounting firm to conduct a general review of the Group's internal control system which has addressed all material controls (including financial, operational and compliance controls) and risk management functions and ascertain, advise and report if any deficiency exists.

AUDITORS' REMUNERATION

The predecessor auditor Ernst & Young, resigned as auditors of the Company and its subsidiaries with effect from 8 January 2009 as the Company could not arrive at a consensus with Ernst & Young on the audit fee for the financial year ended 31 December 2008. The Board had resolved to appoint BDO McCabe Lo Limited as new auditors of the Company and its subsidiaries to fill the casual vacancy so arising on 11 February 2009.

Corporate Governance Report

For the financial year ended 31 December 2008, fees paid by the Group to Ernst & Young in respect of their audit services and non-audit services were totally HK$1,520,000 and HK$75,000 respectively. The fees payable to existing auditor, BDO McCabe Lo Limited, for audit services are totaling of HK$1,450,000.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. The Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2008 in relation to securities transactions.

FINANCIAL REPORTING

Pursuant to Rule 13.46(2)(a) and Rule 13.49(1) of the Listing Rules and Rule 13.48(1) and Rule 13.49(6) of the Listing Rules, the Company was required to despatch its annual report and publish its annual financial results for the year ended 31 December 2007 no later than four months after the date upon which its financial year ends, that was on or before 30 April 2008 and despatch its interim report and publish its interim financial results for the six months ended 30 June 2008 no later than three months after the date upon which its first six months of the financial year ends, that was on or before 30 September 2008. However, more time was needed for the Company to provide information required by the auditors and for the auditors to complete their work. The Company was unable to either despatch its annual report and publish its annual financial results for the year ended 31 December 2007 on or before 30 April 2008 or despatch its interim report and publish its interim financial results for the six months ended 30 June 2008 on or before 30 September 2008 as required by the Listing Rules.

The audited financial statements set out in this annual report have been prepared on a going concern basis. Save as disclosed in note 2.1 to the financial statements, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors' responsibilities for the accounts and the statement by the auditors of the Company regarding their reporting responsibilities is set out in the independent auditor's report on pages 35 to 36.

SUSPENSE OF TRADING IN THE SHARES

At the direction of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), trading in the shares of the Company was suspended from 9:30 a.m. on 14 February 2008 and will remain suspended until further notice.

On Behalf of the Board

Zhang Shuyang
Chairman
Hong Kong
20 April 2009

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 99.

The Directors do not recommend the payment of any dividend for the Year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated financial results and consolidated assets, liabilities and minority interests of the Group for the last five financial years is set out on pages 100 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year ended 31 December 2008 are set out in notes 13 and 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2008 are set out in notes 31 and 32 to the financial statements, respectively.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has complied with the public float requirement set out in the Rule 8.08 of the Listing Rules on the Stock Exchange throughout the year ended 31 December 2008.

DONATION

During the Year, the donation expenditure of the Group was approximately HK$45,000.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, so far as the Directors are aware, the following persons (other than the Directors and the Chief Executive of the Company) have interests or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is, directly or indirectly interested in 5% or more in the issued share capital of the Company, as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholders	Class of Shares	Capacity	Number of Shares held (Note 4)	Approximate Percentage of Shareholding in the Total Issued Share Capital
Z-Idea Company Limited (Note 1)	Ordinary shares	Beneficial owner	249,000,000 (L)	62.25%
Good Day International Limited (Note 2)	Ordinary shares	Beneficial owner	45,000,000 (L)	11.25%
Ms. Wu Lixia (Note 3)	Ordinary shares	Interest of controlled corporation	45,000,000 (L)	11.25%
數源科技股份有限公司	Ordinary shares	Beneficial owner	38,088,000 (L)	9.52%

Notes:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, an Executive Director.

2. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng, the son of Mr. Zhang Shuyang, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.

3. The interest in 45,000,000 shares is deemed corporate interest through Good Day International Limited.

4. The letter "L" denotes a long position.

Save as disclosed above, so far as the Directors are aware, no other person was interested in or had a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31 December 2008.

SHARE OPTION SCHEMES

On 22 June 2004, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") were approved and adopted by the shareholders of the Company. The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme is to provide incentive and/or reward to the participants for their contribution to, and continuing efforts to promote the interests of the Company. Participants include any director, consultant, adviser, full-time or part-time employee of the Company and its subsidiaries who, in the sole discretion of the Board, has contributed or will contribute to the Group.

(a) Pre-IPO Share Option Scheme

As stipulated in the Pre-IPO Share Option Scheme, no further options can be granted under the Pre-IPO Share Option Scheme from 15 July 2004, being the date on which the Company's shares were listed on the Stock Exchange.

Pursuant to the Pre-IPO Share Option Scheme, the Company granted options to subscribe for the shares of the Company in favour of certain directors and employees on 25 June 2004 with an exercise price of HK$1.068 per share, being the offer price for the shares of the Company allotted when dealings in the shares commenced on the Stock Exchange, at a consideration of HK$1.00 per option.

Each option has a 10-year exercise period commencing from 25 June 2004 to 24 June 2014. Within the 10-year exercise period, there is a total vesting period of four years. Commencing on the first, second, third and fourth anniversaries of the date of grant of the option, the relevant grantee may exercise up to 0%, 33%, 67% and 100%, respective of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

As at 31 December 2008, options to subscribe for 23,520,000 shares in aggregate at an exercise price of HK$1.068 per share have been granted by the Company to a total of 56 employees of the Group and outstanding. Particulars of the options which have been granted to (i) all Directors; and (ii) continuous contract employees of the Group under the Pre-IPO Share Option Scheme are set out below:

			Number of option shares				
Grantee	**Date of grant**	**Exercise price per share** (HK$)	**Balance as at 1 January 2008**	**Exercised during the year ended 31 December 2008**	**Cancelled/ lapsed during the year ended 31 December 2008**	**Balance as at 31 December 2008**	**Exercise period**
(i) Directors							
Mr. Zhang Shuyang (Executive Director)	25/06/2004	1.068	2,300,000	–	–	2,300,000	25/06/2004–24/06/2014
Sub-total			2,300,000	–	–	2,300,000	
(ii) Other continuous contract employees							
Senior management employees	25/06/2004	1.068	10,230,000	–	(2,200,000)	8,030,000	25/06/2004–24/06/2014
Other employees	25/06/2004	1.068	17,290,000	–	(4,100,000)	13,190,000	25/06/2004–24/06/2014
Sub-total			27,520,000	–	(6,300,000)	21,220,000	
Grand Total			29,820,000	–	(6,300,000)	23,520,000	

Directors' Report

(b) Share Option Scheme

As at 31 December 2008, no option has been granted under the Share Option Scheme since it was adopted by the Company on 22 June 2004. The Share Option Scheme will remain in force until 21 June 2014 subject to earlier termination by the Company in general meeting or the Board.

The total number of shares of the Company available for issue under the Share Option Scheme as at the date of this annual report was 40,000,000 shares of the Company, which represented 10% of the issued share capital of the Company.

The maximum entitlement of each participant under the Share Option Scheme is that the total number of shares issued and to be issued upon exercise of all options granted in any 12-month period up to and including the date of grant of an option shall not exceed 1% of the total number of shares in issue at the date of grant of an option, unless approved by shareholders in general meeting with such participant and his or her associates abstaining from voting. An option may be exercised during a period to be notified by the Board and in any event such period shall not be more than 10 years after the date of the grant of the option.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board, which shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Laws (2004 Revision) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2008 are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2004 Revision) of the Cayman Islands, amounted to a deficit of approximately HK$97,774,000. The distributable reserves include the Company's share premium and contributed surplus, a total of approximately HK$151,495,000 as at 31 December 2008, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 38.6% of the total sales for the Year and sales to the Group's largest customer included therein accounted for approximately 9.9% of total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 34.5% of the total purchases for the Year and purchases from the Group's largest supplier included therein accounted for approximately 17.0% of total purchases for the Year.

At no time during the Year have the Directors, their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

DIRECTORS

The Directors during the year ended 31 December 2008 and up to the date of this report were:

EXECUTIVE DIRECTORS:

	Appointment Date	Resignation/ Cessation Date
Mr. Zhang Shuyang	13 February 2004	—
Mr. Tung Chi Wai, Terrence	13 February 2004	25 September 2008
Mr. Leung Koon Sing	1 August 2008	—

INDEPENDENT NON-EXECUTIVE DIRECTORS:

	Appointment Date	Resignation/ Cessation Date
Mr. Ede Hao Xi, Ronald	19 June 2004	11 June 2008
Mr. Li Yueh Chen	19 June 2004	11 June 2008
Mr. Mu Xiangming	15 June 2007	—
Mr. Selwyn Mar	12 June 2008	7 July 2008
Mr. Lam Chun, Daniel	23 June 2008	12 July 2008
Mr. Chiu Chi Cheong Clifton	27 August 2008	23 December 2008
Mr. Martin He	27 August 2008	—
Mr. Kwong Ping Man	6 March 2009	—

Pursuant to articles 86(3) and 87(1) of the Company's articles of association, Mr. Kwong Ping Man and Mr. Mu Xiangming will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company scheduled for 8 June 2009 (the "AGM").

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 12 to 16.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Mr. Zhang Shuyang, an Executive Director, has entered into a service contract with the Company on 22 June 2004 for an indefinite term subject to termination by either party giving not less than three months' written notice. Mr. Leung Koon Sing, an Executive Director, has entered into a service contract with the Company on 1 August 2008 for a term of two years subject to termination by either party giving not less than three months' written notice. They both may receive discretionary management bonuses to be determined by the Board, but the aggregate amount of the management bonus payable to the then Directors in respect of any financial year of the Company shall not exceed 5% of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items and the payment of any such bonus) in respect of that financial year.

The Independent Non-executive Directors, Mr. Martin He and Mr. Mu Xiangming, have entered into service contracts with the Company for a term of two years for an annual fee of HK$216,000 and HK$180,000, respectively. The Independent Non-executive Director, Mr. Kwong Ping Man, has entered into a service contact with the Company for a term of one year for an annual fee of HK$240,000.

Apart from the foregoing, no Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2008.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence during the year ended 31 December 2008.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors had any interest in a business which competes or may compete with the businesses of the Group during the year ended 31 December 2008.

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the interests and short positions of the Directors in the share capital, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have been taken under such provisions of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity	Number of Shares Held	Approximate Percentage of the Company's Issued Capital
Mr. Zhang Shuyang (Note)	Interest of controlled corporation	249,000,000	62.25%

The interests of the Directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

Note:

The interest in 249,000,000 shares is deemed corporate interest through Z-Idea Company Limited which is beneficially and wholly owned by Mr. Zhang Shuyang.

Save as disclosed above, as at 31 December 2008, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Division 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 32 to the financial statements and the paragraph headed "Share Option Schemes" above, at no time during the year ended 31 December 2008 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note 24 "Loans to Directors" and note 39 "Related Party Transactions" to the financial statements. The Board confirmed that the related party transactions set out in the notes constituted connected transactions of the Group under Chapter 14A of the Listing Rules.

Directors' Report

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 17 to 26.

AUDIT COMMITTEE

The Company has an audit committee in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control system and providing advice and comments to the Board. The Audit Committee consists of three Independent Non-executive Directors of the Company.

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2008.

AUDITORS

BDO McCabe Lo Limited was appointed as the auditors of the Company on 11 February 2009 following the resignation of Ernst & Young with effect from 8 January 2009. There is no other change in auditors of the Company in the past 3 years.

BDO McCabe Lo Limited will retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

SUSPENSION OF TRADING IN THE SHARES

At the direction of the Stock Exchange, trading in the shares of the Company has been suspended with effect from 9:30 a.m. on 14 February 2008 and will remain suspended until further notice.

On Behalf of the Board

Zhang Shuyang
Chairman
Hong Kong
20 April 2009

Independent Auditor's Report

BDO

BDO McCabe Lo Limited
Certified Public Accountants
德豪嘉信會計師事務所有限公司

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TO THE SHAREHOLDERS OF MITSUMARU EAST KIT (HOLDINGS) LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Mitsumaru East Kit (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 99, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

BASIS FOR QUALIFIED OPINION

In last year, the predecessor auditor was not able to obtain sufficient evidence to assess the recoverability of the remaining balance of certain trade receivables located in Russia and Argentina totaling HK$50 million out of their carrying amounts at 31 December 2007 of HK$111 million and had issued a disclaimer of opinion accordingly. Details of the qualifications were more fully explained in the 2007 audit report.

At 31 December 2008, the amounts due from these customers amounted to HK$27 million, which were arrived at after a provision for impairment loss of HK$47 million principally based on subsequent cash receipts and their latest financial position. However, we were unable to satisfy ourselves as to the fairness of the beginning balance of these receivables at 1 January 2008 by any other alternative procedures. Any adjustments to the carrying values of these receivables as at 1 January 2008 would have a consequential compensating effect on the Group's loss for the year ended 31 December 2008, and the related disclosures in the financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the beginning balance of trade receivables as at 1 January 2008, the financial statements give a true and fair view of the Group's loss for the year ended 31 December 2008. In all other respects, in our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2008 and of the Group's cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without further qualifying our opinion, we draw attention in Note 2.1 to the financial statements, which indicates the Group incurred a loss of HK$113,265,000 for the year ended 31 December 2008 and as at that date, the Group's current liabilities exceeded its current assets by HK$137,778,000. These conditions, along with other matters as set forth in Note 2.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations; accordingly the financial statements have been prepared on the going concern basis.

BDO McCabe Lo Limited
Certified Public Accountants

Li Yin Fan
Practising Certificate Number P03113

Hong Kong, 20 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	5	**519,883**	1,065,938
Cost of sales		**(489,599)**	(1,007,366)
Gross profit		**30,284**	58,572
Other income and gains	5	**15,331**	10,048
Selling and distribution costs		**(21,264)**	(15,850)
Administrative expenses		**(64,944)**	(56,923)
Other operating expenses		**(11,368)**	(11,672)
Impairment of trade receivables		**(49,328)**	(60,783)
Impairment of interest in an associate		**—**	(8,659)
Share of loss of an associate		**(2,407)**	(4,094)
Finance costs	6	**(6,439)**	(12,543)
Loss before tax	7	**(110,135)**	(101,904)
Tax	10	**(3,130)**	(13,460)
Loss for the year		**(113,265)**	(115,364)
Attributable to:			
Equity holders of the Company	12	**(112,483)**	(115,094)
Minority interests		**(782)**	(270)
		(113,265)	(115,364)
Loss per share attributable to equity holders of the Company	12		
Basic and diluted		**(HK28.1 cents)**	(HK28.8 cents)

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13	**116,119**	138,365
Investment properties	14	**—**	1,874
Prepaid land premiums	15	**8,297**	11,465
Other asset		**4,437**	4,437
Golf club membership	16	**360**	360
Interest in an associate	18	**15,818**	17,657
Available-for-sale investment	19	**232**	232
Deferred tax assets	30	**—**	4,060
Total non-current assets		**145,263**	178,450
Current assets			
Inventories	21	**48,512**	124,625
Trade and notes receivables	22	**74,342**	255,443
Prepayments, deposits and other receivables	23	**21,875**	25,700
Equity investments at fair value through profit or loss	25	**—**	2,655
Restricted time deposits	20	**—**	7,609
Pledged deposits	26	**57,700**	75,953
Cash and cash equivalents	26	**42,853**	71,483
Total current assets		**245,282**	563,468
Current liabilities			
Trade and bills payables	27	**321,958**	464,980
Other payables, accrued expenses and deposits received		**35,581**	25,468
Interest-bearing bank loans	28	**24,671**	131,048
Tax payable		**850**	117
Finance lease payables	29	**—**	635
Total current liabilities		**383,060**	622,248
Net current liabilities		**(137,778)**	(58,780)
Total assets less current liabilities carried forward		**7,485**	119,670

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Total assets less current liabilities brought forward		**7,485**	119,670
Non-current liabilities			
Finance lease payables	29	**–**	(620)
Interest-bearing bank loans	28	**–**	(15,886)
Deferred tax liabilities	30	**(2,336)**	(1,662)
Total non-current liabilities		**(2,336)**	(18,168)
Net assets		**5,149**	101,502
Equity			
Equity attributable to equity holders of the Company			
Issued capital	31	**40,000**	40,000
Reserves	33(a)	**(35,867)**	59,783
		4,133	99,783
Minority interests		**1,016**	1,719
Total equity		**5,149**	101,502

On behalf of the Board

Zhang Shuyang
Director

Leung Koon Sing
Director

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	17	**–**	164,095
Available-for-sale investment	19	**232**	232
Total non-current assets		**232**	164,327
Current assets			
Prepayments and other receivables	23	**109**	557
Cash and cash equivalents	26	**221**	150
Total current assets		**330**	707
Current liabilities			
Other payables and accrued expenses		**6,765**	2,604
Financial guarantee contracts	35	**–**	4,125
Total current liabilities		**6,765**	6,729
Net current liabilities		**(6,435)**	(6,022)
Total assets less current liabilities		**(6,203)**	158,305
Non-current liabilities			
Due to subsidiaries	17	**(51,571)**	(40,413)
Net (liabilities)/assets		**(57,774)**	117,892
Equity			
Issued capital	31	**40,000**	40,000
Reserves	33(b)	**(97,774)**	77,892
(Deficit)/surplus in equity		**(57,774)**	117,892

On behalf of the Board

Zhang Shuyang
Director

Leung Koon Sing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital HK$'000	Share premium account HK$'000	Pre-IPO share option reserve HK$'000	Contributed surplus HK$'000	Statutory surplus reserve HK$'000	Expansion reserve HK$'000	Buildings revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		40,000	52,557	5,586	4,990	27,691	701	–	6,599	72,973	211,097	1,296	212,393
Exchange realignment and net income recognised directly in equity		–	–	–	–	–	–	–	2,795	–	2,795	–	2,795
Loss for the year		–	–	–	–	–	–	–	–	(115,094)	(115,094)	(270)	(115,364)
Total income and expense for the year		–	–	–	–	–	–	–	2,795	(115,094)	(112,299)	(270)	(112,569)
Equity-settled share option arrangements		–	–	985	–	–	–	–	–	–	985	–	985
Share options lapsed during the year		–	–	(126)	–	–	–	–	–	126	–	–	–
Profit appropriation	33(a)	–	–	–	–	701	–	–	–	(701)	–	–	–
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	–	693	693
At 31 December 2007 and 1 January 2008		40,000	52,557*	6,445*	4,990*	28,392*	701*	–*	9,394*	(42,696)*	99,783	1,719	101,502
Change in fair value of buildings		–	–	–	–	–	–	21,877	–	–	21,877	–	21,877
Deferred tax arising from change in valuation of buildings		–	–	–	–	–	–	(2,336)	–	–	(2,336)	–	(2,336)
Exchange realignment		–	–	–	–	–	–	–	(2,984)	–	(2,984)	79	(2,905)
Net income and expenses recognised directly in equity		–	–	–	–	–	–	19,541	(2,984)	–	16,557	79	16,636
Loss for the year		–	–	–	–	–	–	–	–	(112,483)	(112,483)	(782)	(113,265)
Total income and expense for the year		–	–	–	–	–	–	19,541	(2,984)	(112,483)	(95,926)	(703)	(96,629)
Equity-settled share option arrangements		–	–	276	–	–	–	–	–	–	276	–	276
Share options lapsed during the year		–	–	(1,227)	–	–	–	–	–	1,227	–	–	–
Profit appropriation	33(a)	–	–	–	–	27	–	–	–	(27)	–	–	–
At 31 December 2008		40,000	52,557*	5,494*	4,990*	28,419*	701*	19,541*	6,410*	(153,979)*	4,133	1,016	5,149

* These reserve accounts comprise the consolidated reserves of a deficit HK$35,867,000 (2007: a surplus of HK$59,783,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Cash flows from operating activities			
Loss before tax		**(110,135)**	(101,904)
Adjustments for:			
Share of loss of an associate		**2,407**	4,094
Impairment of trade receivables		**49,328**	60,783
Impairment of interest in an associate		**—**	8,659
Impairment of other receivables	7	**—**	3,294
Bank interest income	5	**(3,284)**	(2,287)
Other interest income	5	**—**	(142)
Fair value gain on equity investments at fair value through profit or loss	5	**—**	(6,094)
Gain on disposal of property, plant and equipment, net	5	**(1,157)**	(581)
Reversal of impairment on other receivables	5	**(236)**	—
Gain on transfer of prepaid land premiums	5	**(9,121)**	—
Gain on disposal of a subsidiary	5	**(115)**	—
Finance costs	6	**6,439**	12,543
Depreciation for property, plant and equipment	7	**12,628**	11,967
Depreciation for investment properties	7	**40**	194
Amortisation of prepaid land premiums	7	**275**	380
Write-down of inventories	7	**5,663**	12,624
Loss on disposal of investment properties	7	**112**	—
Equity-settled share option expenses	7	**276**	985
Operating (loss)/profit before working capital changes		**(46,880)**	4,515
Decrease in inventories		**70,314**	16,103
Decrease in trade and notes receivables		**126,672**	86,854
Decrease in prepayments, deposits and other receivables		**4,008**	31,402
Decrease in equity investments at fair value through profit or loss		**2,655**	4,109
Decrease in trade and bills payables		**(138,697)**	(114,300)
Increase/(decrease) in other payables, accrued expenses and deposits received		**7,216**	(22,595)
Cash generated from operations		**25,288**	6,088
Hong Kong profits tax paid		**—**	(1,734)
Overseas (other than China) tax paid		**(14)**	—
China corporate income tax refund, net		**119**	—
Net cash inflow from operating activities — Page 43		**25,393**	4,354

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Net cash inflow from operating activities — Page 42		**25,393**	4,354
Cash flows from investing activities			
Interest received	5	**3,284**	2,287
Purchases of property, plant and equipment	13	**(1,424)**	(8,484)
Acquisition of available-for-sale investment	19	**—**	(232)
Proceeds from disposal of property, plant and equipment		**39,604**	2,183
Proceeds on transfer of prepaid land premiums		**12,740**	—
Proceeds from disposal of investment properties		**1,722**	—
Disposal of a subsidiary, net of cash disposed	34	**(8)**	—
Decrease in restricted time deposits		**7,609**	40
Net cash inflow/(outflow) from investing activities		**63,527**	(4,206)
Cash flows from financing activities			
Inceptions of new bank loans		**78,582**	530,286
Repayment of bank loans		**(202,808)**	(526,228)
Advances from executive directors, net		**3,000**	—
Decrease/(increase) in pledged deposits		**18,253**	(3,729)
Interest paid	6	**(6,393)**	(12,430)
Interest element on finance lease rental payments	6	**(46)**	(113)
Repayment of finance lease payables		**(1,255)**	(610)
Capital contribution from minority shareholders		**—**	693
Net cash outflow from financing activities		**(110,667)**	(12,131)
Net decrease in cash and cash equivalents		**(21,747)**	(11,983)
Cash and cash equivalents at beginning of year		**71,483**	80,980
Effect of foreign exchange rate changes, net		**(6,883)**	2,486
Cash and cash equivalents at end of year		**42,853**	71,483
Analysis of balances of cash and cash equivalents			
Cash and bank balances	26	**42,853**	71,483

Notes to the Financial Statements

31 December 2008

1. CORPORATE INFORMATION

Mitsumaru East Kit (Holdings) Limited (the "Company") is a public limited liability company incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal place of business of the Company is located at Unit 1 on 39/F of Cable TV Tower, No. 9 Hoi Sing Road, Tsuen Wan, New Territories, Hong Kong.

The principal activity of the Company during the year was investment holding. There were no significant changes in the nature of the Group's principal activities during the year. The Group's principal activities are the design of the chassis of Cathode Ray Tube ("CRT") and Liquid Crystal Display ("LCD") colour televisions, and the trading of related components, and the assembling of colour television sets.

In the opinion of the directors of the Company (the "Directors") the holding company and the ultimate holding company of the Group is Z-Idea Company Limited ("Z-Idea"), which is incorporated in the British Virgin Islands (the "BVI").

2.1 BASIS OF PRESENTATION

The financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

In preparing the financial statement, the Directors have given careful consideration to the future liquidity of the Group in light of the Group sustained a loss of approximately HK$113,265,000 for the year ended 31 December 2008 (2007: HK$115,364,000). As at 31 December 2008, the Group's current liabilities exceeded its current assets by approximately HK$137,778,000 (2007: HK$58,780,000). In order to improve the Group's working capital position, certain measures are being implemented by the Group. The Directors are also considering various alternatives for the future direction and financing of the Group:

- Internally, the Group has further strengthened the streamline of production logistics by scaling down the production of non-profitable products and tightening cost controls over various general and administrative expenses. The Group is in the process of forming an equity-joint venture with the engineering team of the design of the chassis of CRT and LCD. This measure would result in staff cost saving;

- The Group is in the midst of expanding its domestic sales market in the People's Republic of China ("PRC") by the increase of distribution channels of direct sales to domestic customers. To achieve this, the Group has obtained 2 certificates of two products with relevant PRC authorities for approving local sales to domestic customers and is in the process of applying 4 certificates of another two types of products, which are expected to be obtained in late April or May 2009. The Directors believe such change in business mode will help to achieve a higher gross profit margin than the existing wholesales market;

- In April 2009, the Group has successfully secured an interest-free short-term loan of Renminbi ("RMB") 6 million (approximately HK$6.8 million) from a potential trading partner for general working capital purpose. A major shareholder of the Company has agreed to provide an unsecured loan facility of RMB20,000,000 (approximately HK$22.7 million) to the Group. In addition, the Group is in negotiation with a bank in the PRC to increase existing facility by RMB30 million (approximately HK$34 million). The Directors have also taken active steps to discuss with suppliers for mutually acceptable repayment terms in order to improve the Group's liquidity; and

Notes to the Financial Statements

31 December 2008

2.1 BASIS OF PRESENTATION *(continued)*

- The Directors are considering to realise the surplus assets at their market values to provide for additional funding to meet its financial obligations.

Taking into account of the above measures, the Directors are of opinion that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future, accordingly the financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2.2 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(d) Functional and presentation currency

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company, and all values are rounded to the nearest thousand except when otherwise indicated. The functional currencies of its principal subsidiaries are RMB and HK$.

Notes to the Financial Statements

31 December 2008

2.3 ADOPTION OF AMENDMENTS AND NEW HKFRSs

(a) Impact of New HKFRSs which are effective during the year

In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the HKICPA, that are effective for the current accounting period of the Group and the Company.

Amendments to HKAS 39 and HKFRS 7	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments and new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

(b) Potential impact arising on HKFRSs not yet effective

The Group has not yet applied the following new or revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
Amendments to HKAS 32 and HKAS1	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
Amendment to HKAS 39	Eligible Hedged Items[3]
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
Amendments to HKAS 7	Improving Disclosure about Financial Instruments[2]
Amendment to HK(IFRIC) — Interpretation 9 and HKAS 39	Embedded Derivatives[4]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKFRS 2 Amendment	Share-based Payment — Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Interpretation 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Interpretation 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Interpretation 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Interpretation 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) — Interpretation 18	Transfers of Assets from Customers[7]

2.3 ADOPTION OF AMENDMENTS AND NEW HKFRSs *(continued)*

(b) Potential impact arising on HKFRSs not yet effective *(continued)*

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers of assets from customers received on or after 1 July 2009

The Group is in the process of making an assessment of the potential impact of these standards, amendments or interpretations and the Directors so far concluded that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2.4 CHANGE IN AN ACCOUNTING POLICY

Prior to 31 December 2008, the buildings of the Group were stated at cost less accumulated depreciation and accumulated impairment losses. With effect from 31 December 2008, in order to reflect the market value of the buildings, which the Directors believe would provide more relevant information to the users of the financial statements, the Group has elected to use revaluation model to account for its buildings in accordance with HKAS 16 "Property, plant and equipment". The specific accounting treatment is set out in the accounting policy note 2.5(e) In previous years, depreciation was provided to write off the cost of the buildings over the expected useful lives using straight-line method. Upon adoption of the revaluation model, the accumulated depreciation charged on buildings have been written back on revaluation and deferred tax liabilities arising from the increase in value of the buildings have been recognised. This change in accounting policy has been applied prospectively and resulted in an increase in net assets by approximately HK$19,541,000 with no effect on the Group's current year financial performance.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, that another entity is classified as an associate. Associates are accounted for using the equity method whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, their carrying values are adjusted for the Group's share of the post-acquisition change in the associates' net assets — except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test in accordance with HKAS 36, by comparing its carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

Notes to the Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

In the Company's balance sheet, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as a separate asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rate on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

(e) Property, plant and equipment

Prior to 31 December 2008, the building component of owner-occupied properties were stated at cost less accumulated depreciation and accumulated impairment losses. With effect from 31 December 2008, the building component of owner-occupied properties are stated at fair value at the date of valuation less accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Increases in valuation are credited to the buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter charged to the consolidated income statement. Any subsequent increases are credited to the consolidated income statement up to the amount previously charged and thereafter to the buildings revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the buildings revaluation reserve to retained earnings.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates used for this purpose are as follows:

Land and buildings	2% — 18%
Plant and machinery	9% — 20%
Motor vehicles	9% — 30%
Office equipment	9% — 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the consolidated income statement on disposal.

(f) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation and not occupied by the Group. Investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write of the cost of investment properties over their estimated useful life of 40 years using straight-line method.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Club membership

Club membership is stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club membership.

(h) Prepaid land premiums

Prepaid land premiums under operating leases represent up-front payments to acquire long-term interests in lease-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(i) Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the leases term.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(j) Other asset

Other asset represents antique held on a long-term basis, which is stated at cost less any impairment loss.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the consolidated income statement.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. At each balance sheet date subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised directly in equity.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(ii) Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loan and receivables

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date of reversal of the impairment does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

Any impairment losses are recognised in the income statement on available-for-sale debt investments and are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(iii) Financial liabilities

Financial liabilities include trade and other payables, interest-bearing bank loans and finance lease payable. They are initially recognised at cost net of directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised within finance costs in the income statement.

Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(iv) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(n) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(o) Foreign currency

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

Notes to the Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Foreign currency *(continued)*

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised directly in equity (the "exchange fluctuation reserve"). Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to the exchange fluctuation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange fluctuation reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange fluctuation reserve.

(p) Share-based payments

The Company operates share option schemes (including pre-IPO share option scheme) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by independent professionally qualified valuers using binomial model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Notes to the Financial Statements

31 December 2008

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Share-based payments *(continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(q) Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, namely, East Kit Electronic (China) Co., Ltd. ("East Kit (China)"), East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)"), Mitsumaru Electronic (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)"), Shenzhen Mitsumaru Electrical Co., Ltd. ("Mitsumaru (Shenzhen)") and Kaern GmbH, which operate in the PRC or in Germany are required to participate in a central pension scheme (the "CPB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a percentage ranging from 10% to 22.5% of their payroll costs to the CPB Scheme. The only obligation of the Group with respect to the CPB Scheme is the ongoing required contributions under the CPB Scheme which are charged to the income statement as they become payable in accordance with the rules.

(r) Impairment of non-financial assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment/investment property under cost model;
- club membership;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Impairment of non-financial assets other than goodwill *(continued)*

- other asset;
- interests in prepaid land premiums under operating lease; and
- investments in subsidiaries and associates

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment is treated as a revaluation increase under that other HKFRS.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

31 December 2008

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Income taxes

The Group has exposure to income taxes in various jurisdictions. Significant judgement is involved in determining the group-wise provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises income tax liabilities based on estimated assessable profits, the rate of tax prevailing in the countries of operation, and the existing tax legislations, interpretations, and practices in respect thereof. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carryforward tax losses, the asset balance will be reduced and charged to the income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

(b) Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(c) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the supply of goods or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(d) Employee benefits — share-based payment transactions

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the option and the number of share options that are expected to become exercisable, and details of which are set in note 32 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

Notes to the Financial Statements

31 December 2008

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) Impairment of receivables

The Group recognises an impairment loss on receivables for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Business segments

The Group has two business segments, namely, (i) the design of the chassis of CRT and LCD colour televisions, and the trading of related components segment, and (ii) the assembling of colour television sets segment. The design of the chassis of colour televisions, and the trading of related components segment constitutes more than 90% of the Group's revenue. Moreover, the segment results and segment assets for the assembling of colour television sets segment are less than 10% of the Group's results and total assets, respectively. Therefore, no business segment analysis is presented.

(ii) Geographical segments

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments *(continued)*

The following tables present revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	Segment revenue — sales to external customers	
	2008	2007
	HK$'000	HK$'000
PRC	**198,128**	450,748
Asia (other than PRC)	**134,480**	216,169
Europe	**155,667**	235,791
South America	**26,073**	160,646
Australia	**—**	29
Others	**5,535**	2,555
	519,883	1,065,938

	Segment assets	
	2008	2007
	HK$'000	HK$'000
PRC	**321,358**	451,528
Hong Kong	**58,754**	271,301
Europe	**4,202**	16,392
Japan	**6,231**	2,697
	390,545	741,918

	Segment capital expenditure	
	2008	2007
	HK$'000	HK$'000
PRC	**1,366**	11,575
Hong Kong	**52**	120
Europe	**6**	352
Japan	**—**	17
	1,424	12,064

Notes to the Financial Statements

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5. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold upon delivery of goods, after allowances for returns and trade discounts and business/sales tax where applicable.

An analysis of the Group's revenue and other income and gains is as follows:

	2008 HK$'000	2007 HK$'000
Revenue		
Sale of goods	**519,883**	1,065,938
Other income and gains		
Bank interest income	**3,284**	2,287
Other interest income	**—**	142
Rental income from investment properties	**76**	189
Fair value gain on equity investments at fair value through profit or loss	**—**	6,094
Gain on disposal of property, plant and equipment, net	**1,157**	581
Gain on transfer of prepaid land premiums	**9,121**	—
Reversal of impairment on other receivables	**236**	—
Gain on disposal of a subsidiary	**115**	—
Others	**1,342**	755
	15,331	10,048

6. FINANCE COSTS

	Group	
	2008 HK$'000	2007 HK$'000
Interest on bank loans wholly repayable within five years	**5,935**	11,567
Interest on bank loans not wholly repayable within five years	**—**	863
Interest on finance lease payables	**46**	113
Other interest expense	**458**	—
Total interest expenses	**6,439**	12,543

Notes to the Financial Statements

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7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories recognised as an expense		**481,944**	992,082
Depreciation for property, plant and equipment	13	**12,628**	11,967
Depreciation for investment properties	14	**40**	194
Amortisation of prepaid land premiums	15	**275**	380
Research and development costs*		**780**	2,037
Minimum lease payments under operating leases in respect of:			
— land and buildings		**950**	929
— plant and machinery		**288**	—
Auditors' remuneration			
— current year		**1,450**	1,900
— prior year		**1,520**	—
Employee benefit expenses (including directors' remuneration — note 8):			
— Wages and salaries		**47,549**	50,258
— Equity-settled share option expense		**276**	985
— Pension scheme contributions		**7,673**	7,707
		55,498	58,950
Direct operating expenses arising on rental-earning investment properties		**22**	105
Impairment of other receivables*		**—**	3,294
Loss on disposal of investment properties		**112**	—
Loss on disposal of equity investments at fair value through profit or loss		**1,068**	—
Foreign exchange difference, net*		**8,658**	2,107
Write-down of inventories**		**10,854**	12,624
Reversal of write-down of inventories** (Note)		**(5,191)**	—

* These items are included in "Other operating expenses" on the face of the consolidated income statement.

** This item is included in "Cost of sales" on the face of the consolidated income statement.

Note: The reversal of write-down of inventories arising from an increase in net realisable values in subsequent sales.

Notes to the Financial Statements

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**583**	395
Other emoluments:		
Salaries, allowances and benefits in kind	**8,297**	10,148
Discretionary bonus*	**—**	1,000
Employee share option benefits	**87**	395
Pension scheme contributions	**24**	42
	8,408	11,585
	8,991	11,980

* Discretionary bonus was paid to an Executive Director at his retirement.

In the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been amortised in the income statement, was determined as at the date of grant and was included in the above directors' remuneration disclosures.

(a) Independent Non-Executive Directors

The fees paid to Independent Non-Executive Directors during the year were as follows:

	2008	2007
	HK$'000	HK$'000
Mr. Ede Hao Xi, Ronald	**67**	150
Mr. Ts'o Shun, Roy	**—**	60
Mr. Li Yueh Chen	**54**	120
Mr. Mu Xiangming	**142**	65
Mr. Chiu Chi Cheong Clifton	**117**	—
Mr. Martin He	**75**	—
Mr. Selwyn Mar	**120**	—
Mr. Lam Chun, Daniel	**8**	—
	583	395

There were no other emoluments payable to the Independent Non-Executive Directors during the year (2007: Nil).

Notes to the Financial Statements

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive Directors

	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008					
Mr. Zhang Shuyang	**4,752**	**—**	**47**	**12**	**4,811**
Mr. Tung Chi Wai, Terrence	**3,039**	**—**	**40**	**12**	**3,091**
Mr. Leung Koon Sing	**506**	**—**	**—**	**—**	**506**
	8,297	**—**	**87**	**24**	**8,408**
2007					
Mr. Zhang Shuyang	4,458	—	155	18	4,631
Mr. Tung Chi Wai, Terrence	3,398	—	132	12	3,542
Mr. Kazunori Watanabe	2,292	1,000	108	12	3,412
	10,148	1,000	395	42	11,585

There was no arrangement under which any Directors waived or agreed to waive any remuneration during the year.

The above Executive Directors' remuneration equalled to the compensation of key management personnel of the Group.

Notes to the Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2007: three) Directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2007: two) non-Director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,196**	1,692
Employee share option benefits	**32**	11
Pension scheme contributions	**12**	232
	2,240	1,935

The number of non-Director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

During the year, no share options were granted under the Company's share option schemes to the two non-Director, highest paid employees in respect of their services to the Group.

10. TAX

No provision of Hong Kong Profits Tax has been provided in the financial statements as the Group has sustained tax losses for the year in Hong Kong. Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The subsidiaries operating in the PRC were granted a tax concession whereby they enjoyed exemption from corporate income tax ("CIT") for two years starting from the first year in which they record assessable profits, after deducting tax losses brought forward, and are entitled to a 50% exemption from CIT for the following three years.

On 16 March 2007, the Fifth Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New PRC Tax Law") which took effect on 1 January 2008. The PRC income tax rate is unified to 25% for all enterprises.

10. TAX *(continued)*

The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which set out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, certain PRC enterprises of the Group which have not fully utilised the five-year tax holiday will be allowed to continue to enjoy a full exemption for a reduction in the prevailing income tax rate until the expiry of the tax holiday, after which, the 25% standard rate will apply.

The tax concession granted to East Kit (Shanghai) and East Kit (China) expired prior to December 2007. Upon obtaining an approval for additional concession with effect on 1 January 2008, East Kit (Shanghai) and East Kit (China) were granted a partial exemption from the national and local portion of CIT for three years as they qualified as an "Advanced Technology Enterprise" pursuant to the tax regulation in the PRC. The CIT rate applied to East Kit (Shanghai) and East Kit (China) for the year was 15% (2007: 13.5%).

The tax concession granted to Mitsumaru (Wuhu) commenced on 1 January 2004, and Mitsumaru (Wuhu) was exempted from CIT for 2004 and 2005. Pursuant to the tax regulation in the PRC, a 50% tax reduction is granted to Mitsumaru (Wuhu) for the succeeding three years. The CIT rate applied to Mitsumaru (Wuhu) for the year was 12.5% (2007: 12%).

	Group	
	2008	2007
	HK$'000	HK$'000
Current tax:		
Provision for the year		
— PRC	**937**	705
— Overseas	**14**	—
	951	705
Over-provision in respect of prior years		
— PRC	**(333)**	—
	618	705
Deferred tax (note 30)		
— Reversal of temporary differences	**2,512**	12,755
Total tax charge for the year	**3,130**	13,460

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10. TAX *(continued)*

A reconciliation of the tax expense applicable to loss before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Loss before tax	**(110,135)**	(101,904)
Tax at the domestic tax rate of 16.5% (2007: 17.5%)	**(18,172)**	(17,833)
Different tax rates applicable to subsidiaries operating in other jurisdictions	**63**	1,870
Tax effect of share of loss of an associate	**397**	716
Effect on opening deferred tax of change in tax rate	**(44)**	581
Tax effect of revenue not subject to tax	**(369)**	(530)
Tax effect of expenses not deductible for tax purposes	**1,315**	14,830
Tax effect of tax losses not recognised	**22,375**	13,826
Tax effect of deductible temporary differences not recognised	**(2,102)**	—
Over-provision in respect of prior years	**(333)**	—
Tax charge at the Group's effective rate	**3,130**	13,460

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's certain building during the year has been charged directly to equity.

Notes to the Financial Statements

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$12,912,000 (2007: HK$17,985,000) which has been dealt with in the financial statements of the Company (note 33(b)).

	2008 HK$'000	2007 HK$'000
Loss of the Company (note 33(b))	**175,942**	98,684
Less: Impairment on amounts due from subsidiaries	**(139,181)**	(1,474)
Impairment on investment costs	**(23,849)**	(79,225)
Loss dealt with in financial statements of the Company	**12,912**	17,985

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share for the year is based on the loss for the year attributable to ordinary equity holders of the Company of HK$112,483,000 (2007: HK$115,094,000), and 400,000,000 (2007: 400,000,000) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2008 and 2007 is same as the basic loss per share as the outstanding options during both years have an anti-dilutive effect on the basic loss per share for these years.

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation							
At 1 January 2007		89,312	30,442	9,354	27,165	1,096	157,369
Additions		762	7,792	293	3,217	—	12,064
Disposals		(1,807)	—	—	—	—	(1,807)
Transfer		1,096	—	—	—	(1,096)	—
Transfer from investment properties	14	5,848	—	—	—	—	5,848
Exchange realignments		4,840	1,062	664	1,805	—	8,371
At 31 December 2007 and 1 January 2008		100,051	39,296	10,311	32,187	—	181,845
Additions		272	299	—	867	—	1,438
Disposals		(45,282)	—	—	(293)	—	(45,575)
Disposal of subsidiary		—	—	—	(18)	—	(18)
Surplus on revaluation		11,306	—	—	—	—	11,306
Exchange realignments		3,904	1,492	600	1,737	—	7,733
At 31 December 2008		70,251	41,087	10,911	34,480	—	156,729
Comprising:							
2008							
At cost		—	41,087	10,911	34,480	—	86,478
At valuation		70,251	—	—	—	—	70,251
		70,251	41,087	10,911	34,480	—	156,729
Accumulated depreciation and impairment							
At 1 January 2007		8,402	6,314	3,539	11,193	—	29,448
Provided during the year	7	3,813	3,082	807	4,265	—	11,967
Transfer from investment properties	14	157	—	—	—	—	157
Eliminated on disposals		(205)	—	—	—	—	(205)
Exchange realignments		647	359	250	857	—	2,113
At 31 December 2007 and 1 January 2008		12,814	9,755	4,596	16,315	—	43,480
Provided during the year	7	3,947	3,470	734	4,477	—	12,628
Eliminated on revaluation		(10,571)	—	—	—	—	(10,571)
Eliminated on disposals		(6,834)	—	—	(294)	—	(7,128)
Eliminated on disposal of subsidiary		—	—	—	(3)	—	(3)
Exchange realignments		644	413	261	886	—	2,204
At 31 December 2008		—	13,638	5,591	21,381	—	40,610
Net carrying amounts							
At 31 December 2008		70,251	27,449	5,320	13,099	—	116,119
At 31 December 2007		87,237	29,541	5,715	15,872	—	138,365

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

The net carrying amount of the Group's machinery held under finance leases included in the total amount of plant and machinery at 31 December 2007 was HK$2,060,000, which was fully repaid during the year.

Included in the Group's leasehold land and buildings at 31 December 2007 were the leasehold land and buildings situated in Hong Kong with a total cost of HK$28,288,000 under medium term leases. As the related prepaid land premium cannot be allocated reliably between the land and buildings elements, the entire payment was included in the cost of leasehold land and building as a finance lease in property, plant and equipment in accordance with the provision of HKAS 17. These leasehold land and buildings were sold during the year.

At 31 December 2008, the following were pledged to secure bank loans granted to the Group (note 28):

(a) certain of the Group's leasehold land and buildings with net carrying amounts of HK$68,152,000 (2007: HK$81,368,000). The related leasehold land element of HK$8,513,000 (2007: HK$8,219,000) is included in the "prepaid land premiums" as set out in note 15 to the financial statements; and

(b) plant and machinery with net carrying amounts of HK$5,280,000 (2007: HK$6,925,000).

With effect from 31 December 2008, the Group's leasehold land and buildings are valued on a depreciated replacement cost basis by an independent professional valuer, Shanghai Guocheng Real Estate Appraisal Co., Ltd. The revaluation surplus net of applicable deferred income taxes was credited to buildings revaluation reserve.

Had the revalued properties been measured on a historical cost basis, their net book value would have been HK$48,374,000.

14. INVESTMENT PROPERTIES

	Group	
	2008	2007
	HK$'000	HK$'000
Cost		
At 1 January	**1,928**	7,776
Disposal	**(1,928)**	—
Transfer to property, plant and equipment (note 13)	**—**	(5,848)
At 31 December	**—**	1,928
Accumulated depreciation		
At 1 January	**54**	17
Transfer to property, plant and equipment (note 13)	**—**	(157)
Provided during the year (note 7)	**40**	194
Elimination on disposal	**(94)**	—
At 31 December	**—**	54
Net carrying amount	**—**	1,874

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14. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties are situated in Hong Kong and are held under medium term leases. The Company disposed of its investment properties during the year. As at 31 December 2007, the fair value of the Group's investment property was HK$2,130,000, which was determined by an independent professional valuer, Vigers Appraisal & Consulting Limited, on an open market, existing use basis. The investment properties were leased to third parties under operating leases, further details of which are included in note 37 to the financial statements.

As at 31 December 2007, all the investment properties of the Group were pledged to secure mortgage loan with net carrying value of HK$1,874,000. Such mortgage no longer existed as at 31 December 2008 (note 28).

15. PREPAID LAND PREMIUMS

The Group's prepaid land premiums comprise:

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**11,741**	11,290
Recognised during the year (note 7)	**(275)**	(380)
Disposal	**(3,620)**	—
Exchange realignments	**668**	831
Carrying amount at 31 December	**8,514**	11,741
Current portion included in prepayments, deposits and other receivables	**(217)**	(276)
Non-current portion	**8,297**	11,465

The leasehold lands are held under medium leases situated in the PRC.

16. GOLF CLUB MEMBERSHIP

	Group	
	2008	2007
	HK$'000	HK$'000
Cost at 1 January and 31 December	**360**	360

Impairment testing of golf club membership

The recoverable amount of the golf club membership is determined based on its estimated fair value at the balance sheet date.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**103,074**	103,074
Due from subsidiaries	**140,655**	141,720
Due to subsidiaries	**(51,571)**	(40,413)
	192,158	204,381
Impairment #	**(243,729)**	(80,699)
	(51,571)	123,682
Due to subsidiaries classified as non-current liabilities	**51,571**	40,413
	—	164,095

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

The amounts due to subsidiaries are unsecured and interest-free. In the opinion of the Directors, the non-current portion will not be repayable within the next twelve months.

An impairment loss was recognised during the years ended 31 December 2007 and 2008 due to sustained loss making conditions of the respective subsidiaries.

As at 31 December 2008, included in the above impairment was a provision of HK$140,655,000 (2007: HK$1,474,000) on amounts due from subsidiaries. Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	Company	
	2008	2007
	HK$'000	HK$'000
At 1 January	**1,474**	—
Impairment loss recognised	**139,181**	1,474
At 31 December	**140,655**	1,474

Notes to the Financial Statements

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mitsumaru (Holdings) Limited	Hong Kong	Ordinary HK$100 Deferred HK$5,000,000	—	100	Investment holding
Mitsumaru (H.K.) Limited	Hong Kong	HK$10,000	—	100	Trading of electronic components
Crown Grace Limited	Hong Kong	HK$1	—	100	Properties investments
East Kit Electronic (China) Co., Ltd. *#	PRC	Paid-up registered US$11,000,000	—	100	Design of the chassis of colour televisions and trading of electronic components
East Kit Electronic (Shanghai) Co., Ltd. *#	PRC	Paid-up registered US$12,650,000	—	100	Design of the chassis of colour televisions and trading of electronic components
Mitsumaru Electronic (Wuhu) Co., Ltd. *#	PRC	Paid-up registered US$1,300,000	—	100	Assembling of colour television sets and other electronic components
Mitsumaru (Japan) Limited #	Japan	Paid-up registered JPY30,000,000	—	67.5	Trading of electronic components
Kaern GmbH #	Germany	Nominal EUR450,000	—	90	Trading of electronic components
Mitsumaru East Kit (Group) Limited ("Mitsumaru EK Group") #	BVI	HK$1	100	—	Investment holding

* These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

\# No audited financial statements are issued by BDO McCabe Lo Limited or other member firm of the BDO network.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

18. INTEREST IN AN ASSOCIATE

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**15,818**	17,657

Particulars of the associate are as follows:

Name	Place of registration and operations	Nominal value of registered and paid-up share capital	Percentage of ownership attributable to the Group	Principal activities
Cyber Opto-Electronical Technology Co., Ltd.*	PRC	Paid-up registered RMB30,800,000	38.5%	Research and development and manufacture of high resolution large screen rear projection display system

* No audited financial statements are issued by BDO McCabe Lo Limited or other member firm of the BDO global network.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts.

	2008	2007
	HK$'000	HK$'000
Assets	**41,874**	43,429
Liabilities	**787**	160
Revenue	**2,661**	5,953
Loss	**5,097**	10,632

19. AVAILABLE-FOR-SALE INVESTMENT

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equity investment, at cost	**232**	232	**232**	232

The above investment consists of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2008, unlisted equity investment of the Group with a carrying amount of HK$232,000 (2007: HK$232,000) was stated at cost because the variability in the range of reasonable fair value estimate was so significant that the Directors were of the opinion that their fair values could not be measured reliably.

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20. RESTRICTED TIME DEPOSITS

Pursuant to agreements entered into between the Group and a supplier dated 28 June 2002 and 31 March 2005, the Group agreed to use certain of its bank deposits as security to guarantee the Group's performance and settlement of all of its outstanding obligations and liabilities due to the supplier in connection with the supply of electronic components. The restricted time deposits was released during the year.

21. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**23,156**	70,192
Work in progress	**129**	5,380
Finished goods	**25,227**	49,053
	48,512	124,625

22. TRADE AND NOTES RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade and notes receivables	**218,241**	344,913
Impairment	**(143,899)**	(89,470)
	74,342	255,443

The Group's trading terms with its customers are mainly on credit, except for the new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables (net of impairment loss) as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**36,523**	148,107
91 days to 180 days	**12,042**	49,840
181 days to 1 year	**7,745**	53,805
Over 1 year	**18,032**	3,691
	74,342	255,443

22. TRADE AND NOTES RECEIVABLES *(continued)*

Movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**89,470**	28,687
Impairment losses recognised	**49,328**	60,783
Exchange realignments	**5,101**	—
At 31 December	**143,899**	89,470

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$49,328,000 (2007: HK$$60,783,000) with carrying amount of HK$93,065,000 (2007: HK$78,935,000). Such individually impaired trade receivables include (i) customers that were in financial difficulties and only a portion of the receivables is expected to be recovered and; (ii) certain amounts of the receivables that were in dispute.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**5,645**	107,095
Less than 1 month past due	**9,336**	31,245
1 to 3 months past due	**9,738**	98,951
More than 3 months but less than 1 year past due	**897**	—
	25,616	237,291

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the trade receivable balance at 31 December 2007 was an aggregate amount of approximately HK$67 million due from several customers within a corporate group located in Russia (the "Russian Customer") and approximately HK$44 million due from another customer located in Argentina (the "Argentinean Customer"). The Group had entered into a repayment agreement with the Russian Customers. The Argentinean Customer had subsequently settled all the balance except for the remittance of approximately HK$17 million, which had been prohibited by the exchange control of Argentina. The Group has been assisting the Argentinean Customer in providing evidence to the authority.

At 31 December 2008, the Directors reassessed the financial position and subsequent cash receipts of these receivables, a provision of HK$46 million and HK$1 million has been made for the Russian Customer and the Argentinean Customer respectively.

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2008	2007	**2008**	2007
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**9,189**	3,748	**—**	100
Deposits and other receivables		**15,744**	24,360	**109**	—
Balances with Directors	24	**—**	886	**—**	457
		24,933	28,994	**109**	557
Impairment		**(3,058)**	(3,294)	**—**	—
		21,875	25,700	**109**	557

Included in the above provision for impairment of prepayments, deposits and other receivables is a provision for individually impaired deposits and other receivables of HK$3,058,000 (2007: HK$3,294,000) with a carrying amount of HK$3,586,000 (2007: HK$3,822,000). The net balances are unsecured, interest-free and the carrying amounts of the amounts due approximate their fair values.

Other than the aforementioned impaired other receivables, none of the above balances are past due or impaired for which there was no recent history of default.

24. LOANS TO DIRECTORS

Loans to Directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	31 December 2008 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2008 HK$'000
Mr. Tung Chi Wai, Terrence	—	679	429
Mr. Zhang Shuyang	—	3,573	457
	—	4,252	886

24. LOANS TO DIRECTORS *(continued)*

Company

Name	31 December 2008 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2008 HK$'000
Mr. Zhang Shuyang	—	3,573	457

The loans to Directors are unsecured, interest-bearing at 9% per annum and repayable within one year. The carrying amounts of these loans approximate to their fair values.

25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008 HK$'000	2007 HK$'000
Listed equity investments, at market value:		
Elsewhere	–	2,655

The above equity investments at 31 December 2007 were classified as held for trading and were fully disposed of during the year.

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2008	2007	2008	2007
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances		**42,853**	71,483	**221**	150
Time deposits		**57,700**	75,953	**—**	—
		100,553	147,436	**221**	150
Less: Pledged time deposits for banking facilities	27	**(57,700)**	(75,953)	**—**	—
Cash and cash equivalents		**42,853**	71,483	**221**	150

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$35,933,000 (2007: HK$22,113,000). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

27. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	2008	2007
	HK$'000	HK$'000
Within 180 days	**217,010**	407,285
181 days to 1 year	**57,196**	41,979
1 to 2 years	**32,814**	7,506
Over 2 years	**14,938**	8,210
	321,958	464,980

Included in the balance are bills payables of HK$107,193,000 (2007: HK$122,315,000) which were secured by a time deposit of HK$57,700,000 (2007: HK$75,953,000) (note 26).

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28. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group 2008 HK$'000	Group 2007 HK$'000
Current				
Bank loans — secured	4.86–7.89	2009	**24,671**	34,784
Bank loans — unsecured	5.39–7.25	2008	**–**	96,264
			24,671	131,048
Non-current				
Bank loans — secured	4.34–8.69	2009–2016	**–**	15,886
			24,671	146,934

	Group 2008 HK$'000	Group 2007 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**24,671**	131,048
In the second year	**–**	2,909
In the third to fifth years, inclusive	**–**	6,941
Beyond five years	**–**	6,036
	24,671	146,934

At 31 December 2008, the Group's bank loans, together with the banking facilities, were secured by the following:

(a) pledge over the Group's plant and machinery, which had an aggregate carrying value at the balance sheet date of approximately HK$5,280,000 (2007: HK$6,925,000) (note 13);

(b) all leasehold land and buildings situated in Hong Kong with aggregate carrying value of approximately HK$27,522,000 as at 31 December 2007, being pledged to secure mortgage loan, were fully disposed of during the year (note 13);

(c) pledge over the Group's leasehold land and buildings situated in the PRC, which has an aggregate carrying value at the balance sheet date of approximately HK$68,152,000 (2007: HK$53,846,000). The related leasehold land element of HK$8,513,000 (2007: HK$8,219,000) is included in the "prepaid land premiums" as set out in note 15 to the financial statements (note 13);

(d) mortgage over the Group's investment properties situated in Hong Kong with aggregate carrying value of approximately HK$1,874,000 as at 31 December 2007. The investment properties were disposed of during the year (note 14).

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28. INTEREST-BEARING BANK LOANS *(continued)*

Other interest rate information:

	Group			
	2008		2007	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Bank loans — secured	**17,010**	**7,661**	9,406	41,264
Bank loans — unsecured	**—**	**—**	—	96,264
	17,010	**7,661**	9,406	137,528

The carrying amounts of the Group's bank loans approximate their fair values.

29. FINANCE LEASE PAYABLES

The Group leased certain machineries in 2007 and the finance lease payables were fully repaid during the year. These leases were classified as finance leases and have remaining lease terms ranging from one to two years. The total future minimum lease payments under finance leases and their present values, were set out below:

	2008		2007	
Group	**Minimum lease payments HK$'000**	**Present value of minimum lease payments HK$'000**	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts payable				
Within one year	**—**	**—**	682	635
In the second year	**—**	**—**	666	620
Total minimum finance lease payment	**—**	**—**	1,348	1,255
Future finance charges	**—**		(93)	
Total net finance lease payables	**—**		1,255	
Portion classified as current liabilities	**—**		(635)	
Long term portion	**—**		620	

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets	Impairment of trade receivables HK$'000
At 1 January 2007	15,037
Charged to the income statement during the year (note 10)	(11,647)
Exchange realignments	670
At 31 December 2007 and 1 January 2008	4,060
Charged to the income statement during the year (note 10)	(4,253)
Exchange realignments	193
At 31 December 2008	—

The Group has accumulated tax losses arising in Hong Kong of HK$129,311,000 (2007: HK$39,539,000). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time, or it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax liabilities	Uninvoiced sales HK$'000	Buildings revaluation reserve HK$'000	Total HK$'000
At 1 January 2007	515	—	515
Charged to the income statement during the year (note 10)	1,108	—	1,108
Exchange realignments	39	—	39
At 31 December 2007 and 1 January 2008	1,662	—	1,662
Credited to the income statement during the year (note 10)	(1,741)	—	(1,741)
Charged to equity for the year	—	2,336	2,336
Exchange realignments	79	—	79
At 31 December 2008	—	2,336	2,336

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31. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
400,000,000 ordinary shares of HK$0.1 each	**40,000**	40,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 22 June 2004, the Company approved and adopted a share option scheme (the "Scheme") and a pre-IPO share option scheme (the "Pre-IPO Scheme"). The purpose of these two schemes is to provide incentives and/or rewards to any director, consultant, advisor person including full-time or part-time employee of the Company and its subsidiaries, at the sole discretion of the board, for their contribution to, and their continuing efforts to promote the interests of the Company. The schemes became effective on 22 June 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Scheme

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, are subject to approval in advance by the Independent Non-Executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-Executive Director of the Company, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

32. SHARE OPTION SCHEMES *(continued)*

The Scheme *(continued)*

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year, at 31 December 2008 and up to the date of approval of these financial statements, no share options have been granted under the Scheme.

The Pre-IPO Scheme

The purpose and the principal terms of the Pre-IPO Scheme, approved and adopted by the Company's shareholders on 22 June 2004, are substantially the same as the purpose and the terms of the Scheme except that:

(i) The subscription price per share shall be the price of each share issued under the public offering, that is, HK$1.068 per share;

(ii) The maximum number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme shall be 35,000,000 shares; and

(iii) Save for the options which have been granted but have not lapsed, cancelled or exercised in full under the Pre-IPO Scheme as set out below, no further options will be offered or granted under the Pre-IPO Scheme after the day immediately prior to the listing of the Company's shares on the Stock Exchange.

On 25 June 2004, options to subscribe for 35,000,000 shares at an exercise price of HK$1.068 per share were granted by the Company under the Pre-IPO Scheme to a total of 91 employees of the Company at a consideration of HK$1.00 per option under the Pre-IPO Scheme.

The following share options were outstanding under the Pre-IPO Scheme during the year:

	2008		2007	
	Weighted average exercise price HK$'000	**Number of options '000**	Weighted average exercise price HK$'000	Number of options '000
At 1 January	**1.068**	**29,820**	1.068	30,470
Lapsed during the year	**1.068**	**(6,300)**	1.068	(650)
At 31 December	**1.068**	**23,520**	1.068	29,820

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32. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme *(continued)*

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2008

Number of options '000	Exercise price* HK$ per share	Exercise period
23,520	**1.068**	25 June 2004 to 24 June 2014

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
29,820	1.068	25 June 2004 to 24 June 2014

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the Pre-IPO share option granted on 25 June 2004 was HK$7,598,000. It was estimated by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, using the binomial model taking into account the terms and conditions upon which the options were granted. During the year ended 31 December 2008, the Group recognised a share option expense of HK$276,000 (2007: HK$985,000). The following table lists the inputs to the model used for calculating the fair value of the Pre-IPO share options at the date of grant as follows:

Dividend yield (%)	0.72
Historical volatility (%)	45.00
Risk-free interest rate (%)	4.47
Expected life of option (year)	10.00
Share price at date of grant (HK$)	1.07

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the Pre-IPO share options was incorporated into the measurement of the fair value.

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33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the relevant regulation in the PRC, the subsidiaries operating in the PRC are required to transfer 10% of their profits after tax, as determined under the accounting regulations in the PRC, to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capital. The statutory surplus reserve and the expansion reserve are non-distributable, and are subject to certain restrictions set out in the relevant regulations in the PRC. These reserves can be used either to offset against accumulated losses or be capitalised as paid-up capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of paid-up capital after the above mentioned usages.

For the year ended 31 December 2008, profit appropriation represented the appropriation of statutory surplus reserve of up to 25% of the paid-up capital for fulfillment of the above statutory requirements.

Buildings revaluation reserve represents the surplus on revaluation of the Group's buildings. The balance on this reserve is wholly undistributable.

(b) Company

	Share premium account HK$'000	Pre-IPO share option reserve HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2007	52,557	5,586	98,938	18,510	175,591
Equity-settled share option arrangements	—	985	—	—	985
Share options lapsed during the year	—	(126)	—	126	—
Loss for the year	—	—	—	(98,684)	(98,684)
At 31 December 2007 and 1 January 2008	52,557	6,445	98,938	(80,048)	77,892
Equity-settled share option arrangements	—	276	—	—	276
Share options lapsed during the year	—	(1,227)	—	1,227	—
Loss for the year	—	—	—	(175,942)	(175,942)
At 31 December 2008	52,557	5,494	98,938	(254,763)	(97,774)

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33. RESERVES *(continued)*

(b) Company *(continued)*

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation completed in 2004, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2004 Revision) of the Cayman Islands, the Company's share premium account and contributed surplus may be distributed to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

34. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of its wholly owned subsidiary, Mitsumaru Shanghai Automotive Electric Co. Ltd., by deregistration and received a residual value of HK$17,000 approximately. The net liabilities disposed at date of disposal were as follows:

	HK$'000
Property, plant and equipment	15
Other receivables	(6)
Cash and bank balances	11
Other payables	(118)
Net identifiable assets and liabilities	(98)
Gain on disposal	115
Total residual value	17
Satisfied by:	
— cash	3
— property, plant and equipment	14
	17
Net cash outflow arising on disposal:	
Cash consideration	3
Cash and bank balances disposed of	(11)
	(8)

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35. CONTINGENT LIABILITIES

As at 31 December 2007, the fair value of the financial guarantee contracts HK$4,125,000 was recorded in the Company's balance sheet.

The unlimited guarantees of HK$147,285,000 given to banks by the Company and jointly with its subsidiaries in connection with facilities granted to subsidiaries in 2007 was released during the year. At 31 December 2007, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were HK$114,796,000.

36. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 28 and 29 to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leased its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms of one year. The terms of the leases generally also require the tenants to pay security deposits. During the year, the Group disposed of its entire investment properties.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year amounted to HK$48,000.

As lessee

During the year ended 31 December 2008, the Group leased its office properties under operating lease arrangements which were negotiated for terms of one to three years. At 31 December 2008, the Group's minimum lease obligation under non-cancellable operating leases in respect of land and buildings details are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**2,192**	–
In the second to fifth years, inclusive	**5,048**	–
	7,240	–

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38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for the capital contribution payable to available-for-sale investment	**810**	810

At the balance sheet date, neither the Group nor the Company have any other significant commitments.

39. RELATED PARTY TRANSACTIONS

Saved as disclosed notes 8 and 24 in the financial statements, the Group entered into the following transactions with related parties during the year:

(a)

Related party relationship	Types of transactions	Transaction amount		Balance owed/(owing)	
		2008	2007	**2008**	2007
		HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Substantial shareholder	Sales	**13,098**	58,869	**2,785**	10,450
– 數源科技股份有限公司	Purchases	**15,240**	54,345	**–**	–
(Note)	Sub-contracting fee	**4,634**	5,255	**–**	–

(b) Included in prepayments, deposits and other receivables are as follows:

(i) amounts due from certain companies of the certain executive directors totaling HK$174,000 (2007: HK$133,000). The balance due is unsecured, interest-free and has no specific terms of repayment;

(ii) amount due from a minority shareholder of a subsidiary amounting to HK$72,000 (2007: HK$101,000). The balance due is unsecured, interest-free and has no specific terms of repayment;

(c) Included in other payables, accrued expenses and deposits are amounts due to an executive director, Mr Zhang Shuyang, totaling HK$3,032,000 (2007: Nil). The balances due are unsecured and have no specific terms of repayment. Interest is charged at 9% per annum;

(d) The interest income from loans to executive directors of nil (2007: HK$142,000) was charging at the rate of 9% per annum.

(e) The interest expense on amounts due to executive directors of HK$458,000 (2007: Nil) was charging at the rate of 9% per annum.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee have been given or received during 2008 or 2007 regarding related party transactions.

Note: 數源科技股份有限公司 owns 9.52% equity interest in the Company and is a substantial shareholder of the Company.

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40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

	Group							
Financial assets	Financial assets at fair value through profit or loss — held for trading	— held for trading	Loans and receivables		Available-for-sale financial assets		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK$"000	HK$"000	HK$"000	HK$"000	HK$"000	HK$"000	HK$"000	HK$"000
Available-for-sale investment (note 19)	**–**	–	**–**	–	**232**	232	**232**	232
Restricted time deposits	**–**	–	**–**	7,609	**–**	–	**–**	7,609
Trade and notes receivables	**–**	–	**74,342**	255,443	**–**	–	**74,342**	255,443
Financial assets included in prepayments, deposits and other receivables	**–**	–	**19,164**	13,469	**–**	–	**19,164**	13,469
Equity investments at fair value through profit or loss (note 25)	**–**	2,655	**–**	–	**–**	–	**–**	2,655
Pledged deposits	**–**	–	**57,700**	75,953	**–**	–	**57,700**	75,953
Cash and cash equivalents	**–**	–	**42,853**	71,483	**–**	–	**42,853**	71,483
	–	2,655	**194,059**	423,957	**232**	232	**194,291**	426,844

	Group	
Financial liabilities	Financial liabilities at amortised cost	
	2008	2007
	HK$'000	HK$'000
Trade and bills payables	**321,958**	464,980
Financial liabilities included in other payables, accrued expenses and deposits received	**28,794**	19,972
Interest-bearing bank loans	**24,671**	146,934
Finance lease payables	**—**	1,255
	375,423	633,141

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40. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows *(continued)*:

Financial assets	Company					
	Loans and receivables		Available-for-sale financial assets		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Due from subsidiaries	**—**	141,720	**—**	—	**—**	141,720
Available-for-sale investment (note 19)	**—**	—	**232**	232	**232**	232
Financial assets included in prepayments, deposits and other receivables	**109**	485	**—**	—	**109**	485
Cash and cash equivalents	**221**	150	**—**	—	**221**	150
	330	142,355	**232**	232	**562**	142,587

Financial liabilities	Company	
	Financial liabilities at amortised cost	
	2008	2007
	HK$'000	HK$'000
Due to subsidiaries	**51,571**	40,413
Financial liabilities included in other payables, accrued expenses and deposits received	**3,733**	2,604
	55,304	43,017

Notes to the Financial Statements

31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of Directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on risk management. As the Group's exposure to the market risk is kept at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

At 31 December 2008, the Group's financial instruments mainly comprise cash and cash equivalents, trade receivables, other receivables, equity investments at fair value through profit or loss, trade payables, other payables, bank loans and financial leases payables.

(a) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate time deposits and borrowings) and the Group's and the Company's equity.

	Group			Company	
	Change in basis points	Change in loss before tax	Change in equity	Change in basis points	Decrease in equity
	%	HK$'000	HK$'000	%	HK$'000
2008					
Hong Kong dollar	**100**	**234**	**234**	**100**	**2**
2007					
Hong Kong dollar	100	1,054	1,054	100	2

Notes to the Financial Statements

31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in HK$, RMB and United States Dollars ("US$"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against RMB and US$. Considering that the HK$ is pegged to the US$, the Group believes its exposure to exchange risk will be confined to RMB and HK$. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations, but will constantly monitor the economic situation and its foreign exchange risk position, and will consider appropriate hedging measures in future as may be necessary and feasible.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity.

	Change in RMB rate %	Change in loss before tax HK$'000	Change in equity HK$'000
2008			
If Hong Kong dollar weakens against RMB	**5**	**(2,704)**	**(2,704)**
2007			
If Hong Kong dollar weakens against RMB	10	1,644	1,644

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Except for balance from the Argentinean customer, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and equity investments at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Except for the two security pledge agreements with the Debtor as set out in note 22 to the financial statements, the Group trades only with recognised and creditworthy third parties and there is no requirement for collateral.

Notes to the Financial Statements

31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

			2008		
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	**47,752**	**217,794**	**56,412**	**—**	**321,958**
Financial liabilities included in other payables, accrued expenses and deposits received	**28,794**	**—**	**—**	**—**	**28,794**
Interest-bearing bank loans	**—**	**7,121**	**18,861**	**—**	**25,982**
	76,546	**224,915**	**75,273**	**—**	**376,734**

			2007		
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	15,716	407,285	41,979	—	464,980
Financial liabilities included in other payables, accrued expenses and deposits received	19,972	—	—	—	19,972
Interest-bearing bank loans	16,537	115,227	3,076	17,173	152,013
Finance lease payables	—	170	512	666	1,348
	52,225	522,682	45,567	17,839	638,313

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31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Liquidity risk *(continued)*

Company

	Company	
	2008	2007
	over one year	over one year
	HK$'000	HK$'000
Due to subsidiaries	**51,571**	40,413

(e) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Interest-bearing bank loans	**24,671**	146,934
Finance lease payables	**—**	1,255
Trade and bills payables	**321,958**	464,980
Other payables, accrued expenses and deposits received	**35,581**	25,468
Less: Cash and cash equivalents	**(42,853)**	(71,483)
Net debt	**339,357**	567,154
Equity attributable to equity holders of the Company	**4,133**	99,783
Capital and net debt	**343,490**	666,937
Gearing ratio	**99%**	85%

Notes to the Financial Statements

31 December 2008

42. EVENT AFTER BALANCE SHEET DATE

In February 2009, the Board resolved to dispose of two subsidiaries, Crown Joint Investment Limited and Kaern GmbH at a total consideration of HK$1. These subsidiaries continue to incur loss in the past years and it is believed considerable cost savings could be achieved if they are disposed of. The Group estimates a loss on disposal of these subsidiaries based on the management accounts as at 31 December 2008 as follows:

	HK$'000
Property, plant and equipment	141
Inventories	903
Trade and other receivables	3,864
Cash and cash equivalents	2,308
Trade and other payables	(4,140)
Estimated net assets	3,076
Less: consideration	—
Estimated loss on disposal	3,076

The disposal does not constitute a discontinued operation as it does not represent a major line of business or geographical area of operation of the Group.

43. COMPARATIVE FIGURES

In consolidated cash flow statement, cash flows related to financial assets at fair value through profit or loss were included under investing activities in 2007 financial statements have been reclassified to operating activities in order to achieve a consistent presentation.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20 April 2009.

Five Year Financial Summary

The following is a summary of the published consolidated results and consolidated assets, liabilities and minority interests of the Group for the last five financial years.

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**519,883**	1,065,938	1,173,795	1,066,240	618,413
PROFIT/(LOSS) BEFORE TAX	**(110,135)**	(101,904)	11,177	19,404	6,045
Tax	**(3,130)**	(13,460)	(2,750)	(4,475)	2,411
PROFIT/(LOSS) FOR THE YEAR	**(113,265)**	(115,364)	8,427	14,929	8,456
Attributable to:					
Equity holders of the parent	**(112,483)**	(115,094)	8,639	15,216	8,552
Minority interests	**(782)**	(270)	(212)	(287)	(96)
	(113,265)	(115,364)	8,427	14,929	8,456

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**390,545**	741,918	944,132	933,383	576,820
TOTAL LIABILITIES	**(385,396)**	(640,416)	(731,739)	(732,049)	(392,968)
MINORITY INTERESTS	**(1,016)**	(1,719)	(1,296)	—	(270)
NET ASSETS	**4,133**	99,783	211,097	201,334	183,582