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 2009

Contents

Corporate Information

DIRECTORS

Executive Director
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

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

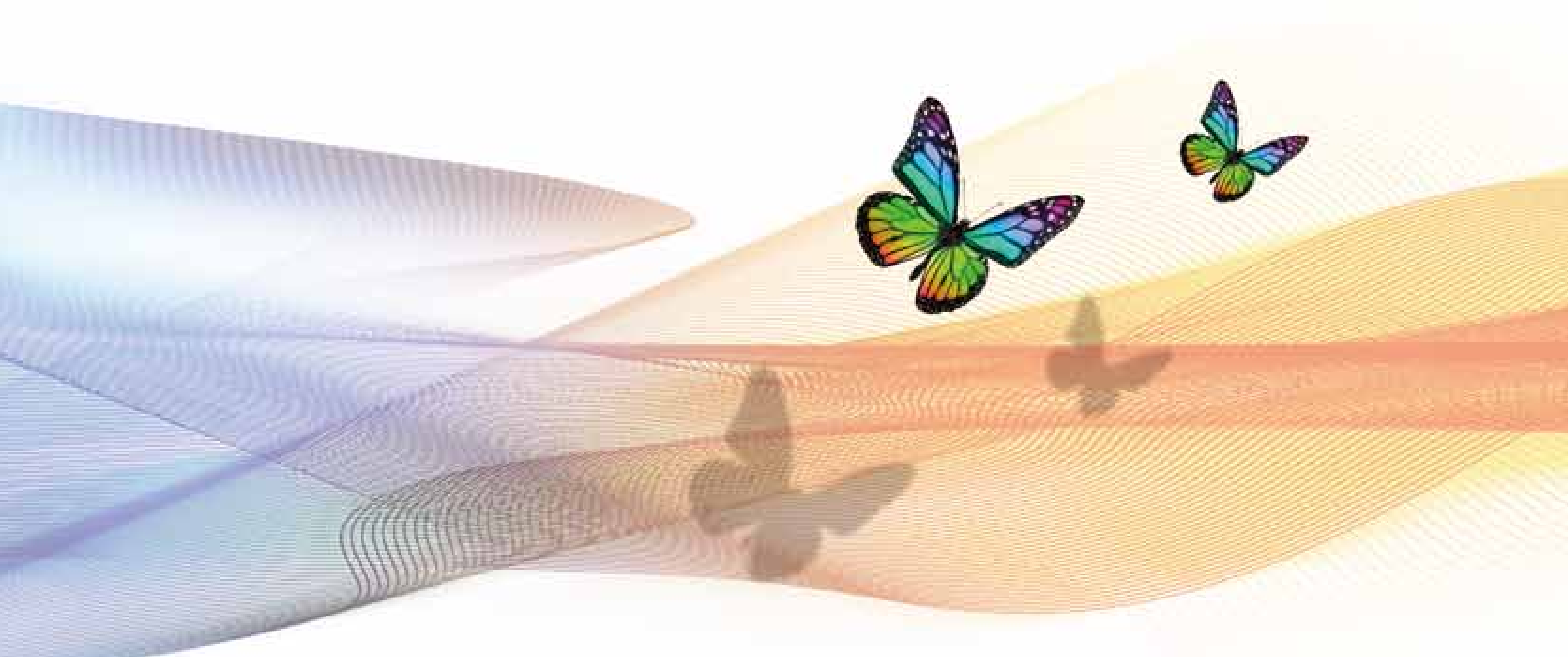
Mr. Cheng Sik Kong

AUTHORISED REPRESENTATIVES

Mr. Leung Koon Sing
Mr. Cheng Sik Kong

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



Corporate Information

AUDITOR

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

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

Bank of Communications
No. 6, Yu Lan Garden, Xin Wu Road
Wuhu City
An Hui Province
PRC

STOCK CODE

2358

WEBSITE

http://www.mitsumaru-ek.com

Management Discussion and Analysis

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

For the year ended 31 December 2009 (the "Year"), the Group achieved approximately HK$167,500,000 in turnover, representing a decrease of approximately 68% from that of approximately HK$519,900,000 in the previous year. The gross profit was approximately HK$4,300,000, representing a decline of approximately 86% from that of approximately HK$30,300,000 in the previous year. The loss for the Year attributable to equity holders of the Company was approximately HK$88,600,000 while that for the year ended 31 December 2008 was approximately HK$112,500,000. Basic loss per share attributable to ordinary equity holders of the Company was approximately HK22.1 cents while that for the year ended 31 December 2008 was HK28.1 cents. As at 31 December 2009, balance of cash and cash equivalents and pledged deposits were approximately HK$4,900,000 and approximately HK$900,000, respectively.

Turnover

For the Year, the Group's turnover was approximately HK$167,500,000, representing a decrease of approximately 68% as compared with the previous year. The decrease was mainly attributable to overall shrinking global demand in CTV products.

Geographically, the PRC and other Asian countries are the major markets of the Group. The Group's turnover generated from Asian markets (including the PRC) decreased from approximately HK$332,600,000 for the year ended 31 December 2008 to approximately HK$164,900,000 for the Year, representing a decrease of approximately 50%. Among others, the performance of sales of CTVs in South America is the most disappointing. The turnover generated from South America dropped from approximately HK$26,100,000 for the year ended 31 December 2008 to approximately HK$40,000 for the Year.

Gross Profit Margin

Owing to the drop in selling prices of CTV products, the gross profit margin of CTVs generally declined. Our gross profit margin decreased from approximately 5.8% in 2008 to approximately 2.6% during the year, mainly because further provision for impairment of inventory was made in 2009.

Expenses

The Group's selling and distribution costs declined from approximately HK$21,300,000 in 2008 to approximately HK$6,600,000 during the Year, primarily attributable to the decrease in turnover and sales team redundancy.

The administrative expenses decreased from approximately HK$64,900,000 in 2008 to approximately HK$55,000,000 during the Year, primarily because of the decrease in salary expenses.

The decrease in its finance expenses was mainly due to the reduction of loan balance interest expenses. The decrease in interest expenses was mainly caused by the reduction of banking facilities.

Management Discussion and Analysis

Financial Position and Liquidity

	31 December 2009	31 December 2008
Current ratio	**0.25**	0.64
Quick ratio	**0.12**	0.51
Gearing ratio	**29%**	7%

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

For the Year, the Group used (2008: generated) approximately HK$124,000,000 (2008: approximately HK$25,400,000) of cash from its operations. As at 31 December 2009, the Group had cash and cash equivalents of approximately HK$4,900,000 (31 December 2008: approximately HK$42,900,000). The decrease in cash and cash equivalents was mainly due to increase in net payment to trade payables.

As at 31 December 2009, deficit in shareholders' equity was approximately HK$71,500,000 (31 December 2008: surplus in shareholders' equity approximately HK$4,100,000). Current assets of the Group amounted to approximately HK$57,300,000 (31 December 2008: approximately HK$245,300,000). The current ratio and quick ratio were approximately 0.25 and 0.12 respectively (31 December 2008: approximately 0.64 and 0.51 respectively).

As at 31 December 2009, the Group's bank borrowings and other loans amounted to approximately HK$47,700,000 (31 December 2008: approximately HK$28,700,000) and the gearing ratio, representing the ratio of total borrowings to total assets, increased to approximately 29% in 2009 from approximately 7% in 2008. Over 95% (approximately HK$46,600,000) of the bank borrowings and other loans are repayable within one year. In order to ensure sufficient funds available for operation, the Group is in the process of negotiation with a bank in the PRC to obtain new banking facility of approximately RMB54,600,000. A major shareholder and potential investor have agreed to provide an unsecured loan facility of RMB80,000,000 (approximately HK$91 million) and RMB25,000,000 (approximately HK$28 million) respectively to the Group.

Trade and notes receivables decreased from approximately HK$74,300,000 as at 31 December 2008 to approximately HK$15,700,000 as at 31 December 2009. During the Year, approximately HK$12,500,000 was provided for impairment losses.

Capital Expenditure

During the Year, the Group had no significant capital expenditures on property, plant and equipment and investment properties (2008: approximately HK$1,400,000).

Pledge of Assets

As at 31 December 2009, certain assets of the Group with an aggregate carrying value of approximately HK$75,800,000 (31 December 2008: approximately HK$82,000,000) 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 31 December 2008 of approximately HK$5,300,000, which was released on full repayment of the corresponding secured bank loan during the year; and

(b) pledge over the Group's leasehold land and buildings situated in the PRC, which had an aggregate carrying value at 31 December 2009 of approximately HK$67,500,000 (31 December 2008: approximately HK$68,200,000). The related leasehold land element of approximately HK$8,300,000 (31 December 2008: approximately HK$8,500,000) is included in the "prepaid land premiums".

Management Discussion and Analysis

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$, the Group believes its exposure to exchange risk will be confined to RMB and HK$. 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

As at 31 December 2009, the Group had no capital commitments (31 December 2008: approximately HK$810,000). As at 31 December 2009, two PRC subsidiaries have been sued by trade creditors for non-payment of outstanding trade balances of approximately HK$23,000,000. Details of the trade payables are set out in note 27 of the financial statements.

Employees Benefit and Expenses

As at 31 December 2009, there were 471 employees in the Group (31 December 2008: 708). The total amount of employee wages incurred during the Year was approximately HK$28,000,000 (2008: approximately HK$55,500,000). 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 the knowledge, skills and overall caliber of its employees. In addition, the Group granted employees option scheme as an encouragement.

BUSINESS REVIEW

In the Year, in spite of the challenging condition for CTV exports in the PRC, the domestic demand for flat panel CTVs started to turn positive. In particular, LCD CTVs is now the mainstream in the market. Driven by a series of control measures on stimulating domestic demand, the growth momentum of flat panel CTVs remained steady in the PRC. The Group, as an export-oriented enterprise, was materially affected by the financial turmoil in 2009, which resulted in a shrinkage of global demand for consumer electronic products and thereby a rapid drop in both orders and sales of the Group. In light of the unfavorable condition of the export market, the Group made a prompt adjustment to its strategies and commenced its domestic sales business under the brand alliance with its customers. In addition, the Group launched video peripheral products such as projector TVs, iPod TVs, USB Micro Video Cameras.

During the Year, the Group was engaged in selling primarily CRT CTVs and LCD CTVs. The Group sold approximately 460,000 CRT CTVs, representing a decrease of approximately 69.33% from that of approximately 1,500,000 in year 2008, and approximately 44,000 LCD CTVs, representing a decrease of approximately 75.6% from that of approximately 180,000 in year 2008. The Group's CRT CTVs were mainly sold to PRC customers for export purpose. Its LCD CTVs were primarily sold to Europe, Japan and other regions.

The board of Directors (the "Board") believes that the Group's poor financial performance has been materially affected by the global financial turmoil, the resulted decrease in the international market demand and impairment of assets.

Because of operating losses and the Group's overall strategic adjustment, the Group disposed 100% share equity in a wholly owned subsidiary, namely, Crown Joint Investment Limited, to a third party and reduced shareholding percentage in a non-wholly owned subsidiary, namely, Mitsumaru Japan Limited.

Management Discussion and Analysis

OUTLOOK

The Group will continue to focus on its principal business of the sale of flat panel CTVs and adopt the "No Brand" strategy. The falling prices of LCD CTVs leads to the growing popularity in the country. On the other hand, with the implementation of the 'Home Appliances to the Countryside' and 'Home Appliances Replacement' policies, the distribution network of LCD CTVs is rapidly expanding into third- and fourth-tier cities. The Group will develop the sale of LCD CTVs in the PRC market under the brand alliance with its customers. For overseas markets, the Group will place a great deal of importance on emerging markets such as India, Brazil and Africa, and will actively develop core overseas markets in Europe and the U.S. by means of trade fairs, with an aim to expand our distribution channels through dealers and, hence, secure a stable number and size of orders in the long run. The Group will optimize its product mix by developing products that cater for local lifestyle to offer better value for money, and will be dedicated to improve the authorization and certification system for patent usage as well as to enhance the after-sale services and order financing.

There has been a trend of technical upgrade and function integration in the CTV production industry for development of energy saving CTVs which are ultra thin with LED backlight, multi-media and stereoscopic. The Group will speed up the cooperation with network content providers and launch LED CTVs that incorporate self-developed intellectual properties and offer superior features such as high durability, low energy consumption, environmental friendliness, better colour performance and an ultra-thin panel. It is believed that the prospects of developing and launching such products will be promising. As products with LED backlight features an appealing exterior and size as well as excellent contrast and colour recovery, they take up a substantial portion of the backlight product market. As the range of home electrical appliances is expanding, the application of and demand for such products will continue to grow. In view of this, the Group will make strong efforts in exploring new products sectors and developing them into our new profit streams.

Despite the shrinkage of the CRT CTVs market, the replacement of CRT technology is a gradual progress. In developing countries and regions such as the PRC, India, Africa, Latin America and Middle East, CRT CTVs still occupy a certain market share to sustain market demands. This can be seen from the prominent position of CRT CTVs in the middle- and small-sized CTV markets. The more mature development, higher durability, easier and economical maintenance as well as affordable price of CRT CTVs as compared to flat panel CTVs give CRT CTVs an edge in attracting consumers. Meanwhile, the Chinese government continues to protect the existence and development of the CRT CTV industry in the PRC by classifying display technologies, namely high-definition CRT, LCD, plasma, OLED, as the key technologies of the information technology industry in the PRC for the next 5 to 15 years. Due to the low labour costs, the duty-free export of parts and components (such as CPT) and the low price of domestic raw materials, the PRC has the most comprehensive and economical ancillary system in the world with 60% to 70% of CRT CTVs worldwide are made in the PRC. Despite the low profit margin for the production of CRT CTVs, the profit for mass production can be considerable with regard to economies of scale. Therefore, the Group shall maintain its business of the sale of CRT CTVs, expand its market share and maximize its profit through mass production.

With the gradual revival of the global economy, the demand for consumer electronic products started to pick up and the sales of the Group was also under restoration. In the new year, the Group will continue to concentrate on the sale of LCD CTVs with the sale of CRT CTVs as the secondary focus and will put LED CTVs on sale. Based on such a foundation, the Group will further the combination of CTV products with multi-media functions and pursue the advancement of CTVs towards 3D CTVs. The Group will also promote the technical upgrade and integration of functions of CTVs, and will speed up the cooperation with network contents providers.

The Group will strengthen its competitiveness by leveraging on its established business platform and expanding its product mix, in order to maximize its profit and, hence, provide the best returns to its shareholders.

DIVIDENDS

The Directors do not recommend payment of any dividend for the Year (2008: Nil).

Directors and Senior Management Profiles

EXECUTIVE DIRECTOR

Mr. Leung Koon Sing, aged 50, is an Executive Director of the Company. 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. Mr. Leung joined the Group and was appointed as a Director on 1 August 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Ping Man, aged 45, 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. Martin He, aged 46, 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 degrees from the Peking University. Mr. He has extensive 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 which is not a listed public company.

Mr. Mu Xiangming, aged 55, was appointed as an Independent Non-executive Director on 15 June 2007. Mr. Mu graduated from Fudan University with a Bachelor's degree in Laws, and further with a Master degree in Laws from University of Oregon Law School. Mr. Mu was a member of Shanghai Municipal Government Foreign Economic Trade Committee from 1983 to 1986 and a practising 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.

FINANCIAL CONTROLLER AND COMPANY SECRETARY

Mr. Cheng Sik Kong, aged 44, is the Financial Controller and Company Secretary of the Company. Mr. Cheng holds a Master degree in 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 Financial Controller and Company Secretary of the Company on 20 February 2008.

Directors and Senior Management Profiles

SENIOR MANAGEMENT

Mr. Wang Guobiao, aged 42, is the President of the Group. Mr. Wang graduated from college of business administration of Zhejiang University with a Master's degree in business administration. He has extensive experience in the home electrical appliance industry and is currently responsible for overseeing the daily operation and management of the Group. Mr. Wang joined the Group in October 2009.

Mr. Han Shiquan, aged 60, is the Vice President 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. Zhao Yuan, aged 47, is the General Manager of the Sales Unit of the Group. Mr. Zhao graduated from Shanghai University of Science and 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. Shao Zhibin, aged 43, is the General Manager of the Manufacture Unit 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 supply chain management of general products of the Group. He is also a director of East Kit Electronic (Shanghai) Company Limited. Mr. Shao joined the Group in February 1998.

Mr. Ma Kejun, aged 58, is the General Manager of LED Department of the Group. Mr. Ma graduated from Shanghai University of Science and Technology, majoring in semiconductor material studies. He once worked in Shanghai Technical Physics Institute and Shanghai Semiconductor Lighting Center, and is currently responsible for the supply chain management of LED products of the Group. Mr. Ma joined the Group in October 2009.

Mr. Wu Zhiping, aged 47, is the Manager of Research & Development Unit of the Group. Mr. Wu graduated from Shanghai University of Science and Technology, majoring in TV electro-acoustic studies. He has accumulated extensive experience in the research and development of TV industry, and is currently responsible for the research and development of general products of the Group. Mr. Wu joined the Group in November 1998.

Former Director Profile

EXECUTIVE DIRECTOR

Mr. Zhang Shuyang, aged 56, was appointed as a Director on 13 February 2004 and he resigned from his office with effect from 2 March 2010. 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.

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") as 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.

For the Year, the Company 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). On 2 March 2010, Mr. Zhang Shuyang resigned as Chairman and Chief Executive Officer of the Company and the Company currently has no Chairman and Chief Executive Officer. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

THE BOARD OF DIRECTORS

Composition of the Board

During the financial year ended 31 December 2009, composition of the Board was:

Executive Directors:

Mr. Zhang Shuyang (resigned on 2 March 2010)
Mr. Leung Koon Sing

Independent Non-executive Directors:

Mr. Kwong Ping Man (appointed on 6 March 2009)
Mr. Martin He
Mr. Mu Xiangming

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

During the Year, the Chairman and Chief Executive Officer of the Company was Mr. Zhang Shuyang, who, in his capacity of Chairman of the Board, provided leadership to the Board, and ensured that the Board was properly briefed on issues arising at board meetings and received 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 roles of the Chairman and the Chief Executive Officer of the Company were performed by the same individual, Mr. Zhang Shuyang, during the Year. The Board considered that this structure would enable the Group to make and implement decisions promptly and efficiently and would not impair the operation of the Company.

On 2 March 2010, Mr. Zhang Shuyang resigned as Chairman and Chief Executive Officer of the Company due to personal health reason and the Company currently has no Chairman and Chief Executive Officer. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

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.

Mr. Kwong Ping Man, the Independent Non-executive Director, 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. Mr. Martin He and Mr. Mu Xiangming, the Independent Non-executive Directors, 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. 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 Director 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 scope of matters reserved for the Board decision includes:

a) the directions, strategies, policies and development of the Company;

b) the objectives, values and standards of the Company;

c) the objectives and performance of senior management;

d) the relationship between the Company and its shareholders, regulators and the community at large; and

Corporate Governance Report

e) the evaluation and assessment of the adequacy of the internal control and risk management system, financial reporting and compliance.

The senior management of the Company is principally responsible for daily operations and administration of the Company. Major corporate matters that are specifically delegated by the Board to senior management include:

a) the preparation of annual and interim reports and announcements for Board approval before public reporting;

b) implementation and execution of business strategies and initiatives adopted by the Board;

c) implementation of adequate systems of internal controls and risk management procedures;

d) compliance with relevant statutory requirements and rules and regulations;

e) the duties delegated to the Management Committee of the Board pursuant to the terms of reference which will be made available to the senior management of the Company; and

f) any other matters delegated and authorised in writing by the Board.

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 have 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.

During the Year, five 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 (resigned on 2 March 2010)	5/5	100%
	Mr. Leung Koon Sing	5/5	100%
Independent Non-executive Directors	Mr. Kwong Ping Man (appointed on 6 March 2009)	3/4	75%
	Mr. Martin He	5/5	100%
	Mr. Mu Xiangming	4/5	80%
Average attendance rate			**91%**

The number of the Independent Non-executive Directors in the Board fell below the minimum number and appropriate accounting expertise requirements as required by Rule 3.10 of the Listing Rules during the period from 1 January 2009 to 5 March 2009. The Company had been actively identifying suitable candidates for appointment as Independent Non-executive Directors so as to meet the requirements under Rule 3.10 of the Listing Rules within three months after failing to meet such requirements as required under Rule 3.11 of the Listing Rules. On 6 March 2009, Mr. Kwong Ping Man, who possesses appropriate accounting and related financial management expertise, was appointed as Independent Non-executive Director.

Corporate Governance Report

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee was established on 22 June 2004. 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 Year, the composition of the Audit Committee was:

Period		
From	**To**	**Audit Committee Members**
1 January 2009	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 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 members fell below the minimum number and appropriate accounting expertise requirements as required by Rule 3.10 and 3.21 of the Listing Rules during the period from 1 January 2009 to 5 March 2009. The Company had been actively identifying suitable candidates for appointment as Independent Non-executive Directors and Audit Committee members so as to meet the requirements under Rule 3.10 and 3.21 of the Listing Rules within three months after failing to meet such requirements as required under Rule 3.11 and 3.23 of the Listing Rules. On 6 March 2009, Mr. Kwong Ping Man, who possesses appropriate accounting and related financial management expertise, was appointed as Independent Non-executive Director and Chairman of the Audit Committee.

During the Year, the Audit Committee reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2009. The Audit Committee also considered proposals made by the Company's auditor BDO Limited, arising out of its audit of the Group for the financial year ended 31 December 2008.

Corporate Governance Report

During the Year, the Audit Committee held two 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. Kwong Ping Man (appointed on 6 March 2009)	2/2	100%
	Mr. Martin He	2/2	100%
	Mr. Mu Xiangming	0/2	0%
Average attendance rate			**67%**

Remuneration Committee

The Remuneration Committee was established on 12 December 2005. 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.

During the financial year ended 31 December 2009, the composition of the Remuneration Committee was:

Period		
From	To	Remuneration Committee Members
1 January 2009	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

The Remuneration Committee currently comprises 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.

Corporate Governance Report

During the Year, 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. Martin He	1/1	100%
	Mr. Kwong Ping Man (appointed on 6 March 2009)	1/1	100%
	Mr. Mu Xiangming	1/1	100%
Executive Director	Mr. Leung Koon Sing	1/1	100%
Average attendance rate			**100%**

Nomination Committee

The Nomination Committee was established on 12 December 2005. 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.

During the Year, the composition of the Nomination Committee was:

Period From	Period To	Nomination Committee Members
1 January 2009	5 March 2009	Mr. Mu Xiangming (Chairman) Mr. Martin He Mr. Zhang Shuyang
6 March 2009	1 March 2010	Mr. Mu Xiangming (Chairman) Mr. Kwong Ping Man Mr. Martin He Mr. Zhang Shuyang
2 March 2010	—	Mr. Mu Xiangming (Chairman) Mr. Kwong Ping Man Mr. Martin He

The Nomination Committee currently comprises three 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) and Mr. Martin He (Independent Non-executive Director). Accordingly, the Nomination Committee comprises a majority of Independent Non-executive Directors.

Corporate Governance Report

During the Year, 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. Mu Xiangming	1/1	100%
	Mr. Kwong Ping Man (appointed on 6 March 2009)	1/1	100%
	Mr. Martin He	1/1	100%
Executive Director	Mr. Zhang Shuyang (resigned on 2 March 2010)	1/1	100%
Average attendance rate			**100%**

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 auditors of the Group are BDO Limited. For the financial year ended 31 December 2009, fees paid by the Company to BDO Limited in respect of their audit services were approximately HK$1,420,000. BDO Limited did not provide any non-audit services to the Group.

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 had complied with the required standard set out in the Model Code throughout the Year in relation to securities transactions.

Corporate Governance Report

FINANCIAL REPORTING

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 are set out in the independent auditor's report on pages 31 to 32.

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.

Reference is made to the announcement of the Company dated 24 February 2009 (the "Announcement") in respect of the investigation (the "Investigation") by the Independent Commission Against Corruption (the "ICAC") initiated on or about 13 February 2008 against Mr. Zhang Shuyang ("Mr. Zhang"), a former Executive Director, and Mr. Tung Chi Wai, Terrence ("Mr. Tung"), a former Executive Director.

On 25 September 2008, the Board set up an Independent Committee (the "Independent Committee"), comprising Mr. Leung Koon Sing, an Executive Director, and all the Independent Non-executive Directors, to find out the subject matter of the Investigation (the "Subject Matter") and to ascertain whether the Investigation has any impacts on the Company's operations, assets, and financial positions through the seizure lists.

As mentioned in the Announcement, the Board has obtained confirmations from Mr. Zhang and Mr. Tung that the Investigation (i) was initiated against themselves personally in relation to the Cases (as defined in the Announcement); (ii) did not relate to the affairs of the Company; and (iii) has no material implications on the Company's operations, assets and financial position. Based on present information as disclosed in the Press Release (as defined in the Announcement), the Board was not aware of any direct relation and implications between the Cases under the Investigation and the Company's operations, assets and financial position and confirmed that the Company had been carrying on its ordinary course of business.

Having identified the Subject Matter, the Company engaged an independent professional advisor on 12 June 2009 to conduct review on the Subject Matter and the sales to two groups of customers located in Russia and Argentina at the request of the Stock Exchange. The report in relation to the sales to two groups of customers located in Russia and Argentina has been finalized in March 2010. The independent professional advisor is of the opinion that nothing has come to its attention that causes it to believe that there are improper records in the sales transactions between the Group with the Argentinean customer and the Russian customer during the relevant period, in all material respects.

The Company, through its legal advisors, requested the ICAC and the relevant Hong Kong judiciary for copies of the search warrant, court transcript, and fact sheet of the Cases, which are evidence to corroborate the confirmation from Mr. Zhang. In March 2010, the ICAC returned all seized documents and materials to the Company. On 14 April 2010 and 24 March 2010, the ICAC issued letters to Mr. Zhang and Mr. Tung respectively, and advised that the Cases were closed. The Company expects that the report in relation to the Subject Matter will be finalized by the end of May 2010.

Corporate Governance Report

The Company engaged the independent professional advisor on 20 July 2009 to complete the internal control review on the operations of the Company. It is expected that the report of the internal control review will be finalized in middle of 2010.

As mentioned in the announcement of the Company dated 2 November 2009, the Board announced that the controlling Shareholder has granted the options over 300,000,000 Shares, representing 75% of the existing issued share capital of the Company, to an independent third party. Exercise of the options may lead to a change in control of the Company.

The Stock Exchange has imposed conditions to resumption of trading of Shares, details of which are set out in the Announcement. The Company will make application to the Stock Exchange for resumption of trading when all conditions to resumption of trading are fulfilled to the satisfaction of the Stock Exchange and further announcement in respect of the resumption of trading will be made by the Company as and when appropriate.

On behalf of the Board

Leung Koon Sing
Executive Director

Hong Kong
26 April 2010

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the Year.

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 19 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 and the state of affairs of the Company and the Group at 31 December 2009 are set out in the financial statements on pages 33 to 91.

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 page 92 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 are set out in notes 15 and 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the Year 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 throughout the Year and up to the date of this report.

Directors' Report

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

As at 31 December 2009, 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 positions 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%
Mr. Zhang Shuyang (resigned as a Director on 2 March 2010) (Note 2)	Ordinary shares	Interest of controlled corporation	249,000,000(L)	62.25%
Good Day International Limited (Note 3)	Ordinary shares	Beneficial owner	45,000,000(L)	11.25%
Ms. Wu Lixia (Note 4)	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%
Grand Idea International Limited (Note 5)	Ordinary shares	Beneficial owner	300,000,000(L)	75.00%
Greeting Hill Limited (Note 6)	Ordinary shares	Interest of controlled corporation	300,000,000(L)	75.00%
Top Spirit International Limited (Note 6)	Ordinary shares	Interest of controlled corporation	300,000,000(L)	75.00%
Wealthy Support Limited (Note 6)	Ordinary shares	Interest of controlled corporation	300,000,000(L)	75.00%
Cheung Chung Leung Richard (Note 7)	Ordinary shares	Interest of controlled corporation	300,000,000(L)	75.00%
Guo Danze (Note 8)	Ordinary shares	Interest of controlled corporation	300,000,000(L)	75.00%
Wang Yu (Note 9)	Ordinary shares	Interest of controlled corporation	300,000,000(L)	75.00%

Directors' Report

Notes:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, a former Executive Director. The 249,000,000 shares are subject to an option deed ("Option Deed") dated 28 October 2009 entered into between Z-Idea Company Limited, Good Day International Limited, T-Square Company Limited, Grand Idea International Limited and Mr. Zhang Shuyang, details of which are set out in the announcement of the Company dated 2 November 2009. Pursuant to the Option Deed, Grand Idea International Limited shall have an option to require Z-Idea Company Limited to sell 204,000,000 shares ("Z-Idea Option I Shares")(representing 51% of the issued share capital of the Company) at the consideration of HK$31,200,000 during the period commencing from the 180th day from the date of the Option Deed and ending on the 360th day from the date of the Option Deed; and to sell 45,000,000 shares ("Z-Idea Option II Shares") (representing 11.25% of the issued share capital of the Company) at the consideration of HK$13,500,000 during a period of 90 days from the date ("First Completion Date") as set out on the option notice which shall not be longer than one month from the date of the option notice.

2. 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.

3. 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. The 45,000,000 shares are subject to the Option Deed. Pursuant to the Option Deed, Grand Idea International Limited shall have an option to require Good Day International Limited to sell 45,000,000 shares ("Good Day Option II Shares") (representing 11.25% of the issued share capital of the Company) at the consideration of HK$13,500,000 during a period of 90 days from the First Completion Date.

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

5. Grand Idea International Limited is owned as to 33.33% by Greeting Hill Limited, as to 33.33% by Top Spirit International Limited and as to 33.33% by Wealthy Support Limited. Greeting Hill Limited, Top Spirit International Limited and Wealth Support Limited are wholly owned by Mr. Wang Yu, Mr. Cheung Chung Leung Richard and Mr. Guo Danze, respectively. The 300,000,000 shares represent the aggregate of the Z-Idea Option I Shares, the Z-Idea Option II Shares, the Good Day Option II Shares and the 6,000,000 shares (representing 1.5% of the issued share capital of the Company) that Grand Idea International Limited shall have the option to require T-Square Company Limited to sell at the consideration of HK$1,800,000 during a period of 90 days from the First Completion Date pursuant to the Option Deed.

6. The interest in 300,000,000 shares is deemed corporate interest through Grand Idea International Limited.

7. The interest in 300,000,000 shares is deemed corporate interest through Grand Idea International Limited and Top Spirit International Limited.

8. The interest in 300,000,000 shares is deemed corporate interest through Grand Idea International Limited and Wealth Support Limited.

9. The interest in 300,000,000 shares is deemed corporate interest through Grand Idea International Limited and Greeting Hill Limited.

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

Save as disclosed above, so far as the Directors are aware, no person other than a Director or Chief Executive of the Company 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 2009.

Directors' Report

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).

Directors' Report

As at 31 December 2009, options to subscribe for 22,700,000 shares in aggregate at an exercise price of HK$1.068 per share have been granted by the Company to a total of 50 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 2009**	**Exercised during the year ended 31 December 2009**	**Cancelled/ lapsed during the year ended 31 December 2009**	**Balance as at 31 December 2009**	**Exercise period**
(i) Directors							
Mr. Zhang Shuyang (resigned as a Director on 2 March 2010)	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	9,720,000	–	–	9,720,000	25/06/2004–24/06/2014
Other employees	25/06/2004	1.068	12,390,000	–	(1,710,000)	10,680,000	25/06/2004–24/06/2014
Sub-total			22,110,000	–	(1,710,000)	20,400,000	
Grand Total			24,410,000	–	(1,710,000)	22,700,000	

(b) Share Option Scheme

As at 31 December 2009, 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.

Directors' Report

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 ("Articles") 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 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 2009, 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$48,923,000. The distributable reserves include the Company's share premium and contributed surplus, a total of approximately HK$151,495,000 as at 31 December 2009, 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for approximately 28.7% of the total sales for the Year and sales to the Group's largest customer included therein accounted for approximately 9.0% of total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 4.2% of the total purchases for the Year and purchases from the Group's largest supplier included therein accounted for approximately 1.3% 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' Report

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive Directors:

Mr. Zhang Shuyang (resigned on 2 March 2010)
Mr. Leung Koon Sing

Independent Non-executive Directors:

Mr. Kwong Ping Man (appointed on 6 March 2009)
Mr. Martin He
Mr. Mu Xiangming

Pursuant to article 87(1) of the Articles, Mr. Martin He will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company scheduled for 8 June 2010 (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 9 to 11.

DIRECTORS' SERVICE CONTRACTS

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 for an annual fee of HK$1,296,000. He may receive discretionary management bonus 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.

Mr. Kwong Ping Man, an Independent Non-executive Director, has entered into a service contact with the Company on 6 March 2010 for a term of one year for an annual fee of HK$240,000. Mr. Martin He, an Independent Non-executive Director, has entered into a service contact with the Company on 27 August 2008 for a term of two years for an annual fee of HK$216,000. Mr. Mu Xiangming, an Independent Non-executive Director, has entered into a service contact with the Company on 8 June 2009 for a term of two years for an annual fee of HK$180,000.

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 or at the end of the Year.

Directors' Report

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.

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31 December 2009, the interests and short positions of the Directors and Chief Executive 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 Share Capital
Mr. Zhang Shuyang (resigned as a Director on 2 March 2010) (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 2009, none of the Directors and Chief Executive 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 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.

Directors' Report

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group during the Year are set out in note 38 "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 and that the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 12 to 20.

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.

AUDITORS

BDO Limited was appointed as the auditor of the Company on 11 February 2009 following the resignation of Ernst & Young with effect from 9 January 2009. There is no other change in auditor of the Company in the past 3 years.

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

SUSPENSION 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.

Reference is made to the announcement of the Company dated 24 February 2009 (the "Announcement") in respect of the investigation (the "Investigation") by the Independent Commission Against Corruption (the "ICAC") initiated on or about 13 February 2008 against Mr. Zhang Shuyang ("Mr. Zhang"), a former Executive Director, and Mr. Tung Chi Wai, Terrence ("Mr. Tung"), a former Executive Director.

On 25 September 2008, the Board set up an Independent Committee (the "Independent Committee"), comprising Mr. Leung Koon Sing, an Executive Director, and all the Independent Non-executive Directors, to find out the subject matter of the Investigation (the "Subject Matter") and to ascertain whether the Investigation has any impacts on the Company's operations, assets, and financial positions through the seizure lists.

As mentioned in the Announcement, the Board has obtained confirmations from Mr. Zhang and Mr. Tung that the Investigation (i) was initiated against themselves personally in relation to the Cases (as defined in the Announcement); (ii) did not relate to the affairs of the Company; and (iii) has no material implications on the Company's operations, assets and financial position. Based on present information as disclosed in the Press Release (as defined in the Announcement), the Board was not aware of any direct relation and implications between the Cases under the Investigation and the Company's operations, assets and financial position and confirmed that the Company had been carrying on its ordinary course of business.

Directors' Report

Having identified the Subject Matter, the Company engaged an independent professional advisor on 12 June 2009 to conduct review on the Subject Matter and the sales to two groups of customers located in Russia and Argentina at the request of the Stock Exchange. The report in relation to the sales to two groups of customers located in Russia and Argentina has been finalized in March 2010. The independent professional advisor is of the opinion that nothing has come to its attention that causes it to believe that there are improper records in the sales transactions between the Group with the Argentinean customer and the Russian customer during the relevant period, in all material respects.

The Company, through its legal advisors, requested ICAC and the relevant Hong Kong judiciary for copies of the search warrant, court transcript, and fact sheet of the Cases, which are evidence to corroborate the confirmation from Mr. Zhang. In March 2010, ICAC returned all seized documents and materials to the Company. On 14 April 2010 and 24 March 2010, ICAC issued letters to Mr. Zhang and Mr. Tung, respectively, and advised that the Cases were closed. The Company expects that the report in relation to the Subject Matter will be finalized by the end of May 2010.

The Company engaged the independent professional advisor on 20 July 2009 to complete the internal control review on the operations of the Company. It is expected that the report of the internal control review will be finalized in middle of 2010.

As mentioned in the announcement of the Company dated 2 November 2009, the Board announced that the controlling Shareholder has granted the options over 300,000,000 Shares, representing 75% of the existing issued share capital of the Company, to an independent third party. Exercise of the options may lead to a change in control of the Company.

The Stock Exchange has imposed conditions to resumption of trading of Shares, details of which are set out in the Announcement. The Company will make application to the Stock Exchange for resumption of trading when all conditions to resumption of trading are fulfilled to the satisfaction of the Stock Exchange and further announcement in respect of the resumption of trading will be made by the Company as and when appropriate.

On Behalf of the Board

Leung Koon Sing
Executive Director

Hong Kong
26 April 2010

Independent Auditor's Report

BDO Limited
Certified Public Accountants
德豪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 33 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

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 judgment, 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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2009 and of the Group's loss and 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention in Note 2.1 to the consolidated financial statements, which indicates the Group incurred a loss of approximately HK$88,207,000 for the year ended 31 December 2009, as of that date, the Group and the Company had net current liabilities of approximately HK$172,164,000 and HK$7,795,000 respectively and net liabilities of approximately HK$70,128,000 and HK$8,923,000 respectively. In addition, certain trade creditors have taken legal actions against the Group's subsidiaries in the People's Republic of China ("PRC") in order to recover overdue balances amounting to approximately HK$23,000,000. These trade creditors petitioned to the court in the PRC successfully to freeze certain assets of the subsidiaries amounting to approximately HK$16,200,000. These situations indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company'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 Limited
Certified Public Accountants

Li Yin Fan
Practising Certificate Number P03113

Hong Kong, 26 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	5	**167,518**	519,883
Cost of sales		**(163,233)**	(489,599)
Gross profit		**4,285**	30,284
Other income and gains	6	**6,426**	15,331
Selling and distribution costs		**(6,561)**	(21,264)
Administrative expenses		**(55,027)**	(64,944)
Other operating expenses		**(28,188)**	(60,696)
Share of loss of an associate		**(7,302)**	(2,407)
Finance costs	7	**(2,314)**	(6,439)
Loss before income tax expense	8	**(88,681)**	(110,135)
Income tax credit/(expense)	11	**474**	(3,130)
Loss for the year		**(88,207)**	(113,265)
Other comprehensive income, after tax			
Release of exchange reserve on disposal of subsidiaries		**798**	—
Gain on revaluation of buildings		**1,236**	19,541
Exchange differences on translating foreign operations		**10,896**	(2,905)
Other comprehensive income, net of tax	14	**12,930**	16,636
Total comprehensive income for the year		**(75,277)**	(96,629)
Loss attributable to:			
— Owners of the Company	13	**(88,564)**	(112,483)
— Minority interests		**357**	(782)
		(88,207)	(113,265)
Total comprehensive income attributable to:			
— Owners of the Company		**(75,638)**	(95,926)
— Minority interests		**361**	(703)
		(75,277)	(96,629)
Loss per share	13		
— Basic and diluted		**(HK22.1 cents)**	(HK28.1 cents)

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	15	**89,885**	116,119
Investment properties	16	**—**	—
Prepaid land premiums	17	**8,131**	8,297
Other asset		**—**	4,437
Golf club membership	18	**360**	360
Interests in associates	20	**8,559**	15,818
Available-for-sale investments	21	**340**	232
Total non-current assets		**107,275**	145,263
Current assets			
Inventories	22	**29,652**	48,512
Trade and notes receivables	23	**15,665**	74,342
Prepayments, deposits and other receivables	24	**5,955**	21,875
Pledged deposits	26	**881**	57,700
Restricted deposits	25	**227**	—
Cash and cash equivalents	26	**4,943**	42,853
Total current assets		**57,323**	245,282
Current liabilities			
Trade and bills payables	27	**161,051**	321,958
Other payables, accrued expenses and deposits received		**20,958**	31,585
Other loans	28	**23,794**	3,996
Interest-bearing bank loans	29	**22,760**	24,671
Tax payable		**924**	850
Total current liabilities		**229,487**	383,060
Net current liabilities		**(172,164)**	(137,778)
Total assets less current liabilities carried forward		**(64,889)**	7,485

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Total assets less current liabilities brought forward		**(64,889)**	7,485
Non-current liabilities			
Deferred tax liabilities	30	**(4,111)**	(2,336)
Other loans	28	**(1,128)**	—
Total non-current liabilities		**(5,239)**	(2,336)
Net (liabilities)/assets		**(70,128)**	5,149
Capital and reserves attributable to owners of the Company			
Issued capital	31	**40,000**	40,000
Reserves	33(a)	**(111,505)**	(35,867)
Capital and reserves attributable to owners of the Company		**(71,505)**	4,133
Minority interests		**1,377**	1,016
(Deficit)/surplus in equity		**(70,128)**	5,149

On behalf of the Board

Leung Koon Sing
Director

Kwong Ping Man
Director

Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Interests in subsidiaries	19	**—**	—
Available-for-sale investment	21	**—**	232
Total non-current assets		**—**	232
Current assets			
Prepayments and other receivables	24	**109**	109
Cash and cash equivalents	26	**900**	221
Total current assets		**1,009**	330
Current liabilities			
Other payables and accrued expenses		**4,738**	3,765
Other loans	28	**4,066**	3,000
Total current liabilities		**8,804**	6,765
Net current liabilities		**(7,795)**	(6,435)
Total assets less current liabilities		**(7,795)**	(6,203)
Non-current liabilities			
Due to subsidiaries	19	**—**	(51,571)
Other loans	28	**(1,128)**	—
Total non-current liabilities		**(1,128)**	(51,571)
Net liabilities		**(8,923)**	(57,774)
Capital and reserves attributable to owners of the Company			
Issued capital	31	**40,000**	40,000
Reserves	33(b)	**(48,923)**	(97,774)
Deficit in equity		**(8,923)**	(57,774)

On behalf of the Board

Leung Koon Sing
Director

Kwong Ping Man
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	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	Accumulated losses HK$'000	Capital and reserves attributable to owners of the Company HK$'000	Minority interests HK$'000	(Deficit)/ surplus in equity HK$'000
At 1 January 2008		40,000	52,557	6,445	4,990	28,392	701	–	9,394	(42,696)	99,783	1,719	101,502
Total comprehensive income 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 and 1 January 2009		40,000	52,557*	5,494*	4,990*	28,419*	701*	19,541*	6,410*	(153,979)*	4,133	1,016	5,149
Total comprehensive income for the year		–	–	–	–	–	–	1,236	11,690	(88,564)	(75,638)	361	(75,277)
Transfer between reserve upon disposal of property		–	–	–	–	–	–	(1,016)	–	1,016	–	–	–
Share options lapsed during the year		–	–	(333)	–	–	–	–	–	333	–	–	–
At 31 December 2009		40,000	52,557*	5,161*	4,990*	28,419*	701*	19,761*	18,100*	(241,194)*	(71,505)	1,377	(70,128)

* These reserve accounts comprise the consolidated deficit in reserves of HK$111,505,000 (2008: HK$35,867,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Loss before income tax expense		**(88,681)**	(110,135)
Adjustments for:			
Share of loss of an associate		**7,302**	2,407
Interest income	6	**(1,104)**	(3,284)
Gain on disposal of property, plant and equipment, net	6	**—**	(1,157)
Reversal of impairment on other receivables	6	**—**	(236)
Gain on transfer of payments for leasehold land held for own use under operating leases	6	**—**	(9,121)
Gain on disposals of subsidiaries, net	6	**(3,734)**	(115)
Gain on disposal of other assets	6	**(363)**	—
Impairment of trade receivables	8	**8,522**	49,328
Impairment of amount due from associate	8	**168**	—
Impairment of other receivables	8	**336**	—
Impairment of property, plant and equipment	8	**14,654**	—
Impairment of available-for-sale investment	8	**632**	—
Finance costs	7	**2,314**	6,439
Loss on disposal of property, plant and equipment	8	**603**	—
Depreciation of property, plant and equipment	8	**13,571**	12,628
Depreciation of investment properties	8	**—**	40
Amortisation of payments for leasehold land held for own use under operating leases	8	**206**	275
Write-down of inventories, net	8	**6,348**	5,663
Loss on disposal of investment properties	8	**—**	112
Equity-settled share-based payment expense	8	**—**	276
Operating loss before working capital changes		**(39,226)**	(46,880)
Decrease in inventories		**221**	70,314
Decrease in trade and notes receivables		**46,721**	126,672
Decrease in prepayments, deposits and other receivables		**12,677**	4,008
Decrease in equity investments at fair value through profit or loss		**—**	2,655
Decrease in trade and bills payables		**(137,479)**	(138,697)
(Decrease)/increase in other payables, accrued expenses and deposits received		**(7,117)**	7,216
Cash (used in)/generated from operations — Page 39		**(124,203)**	25,288

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash (used in)/generated from operations — Page 38		**(124,203)**	25,288
Overseas (other than China) tax paid		**—**	(14)
China corporate income tax refund, net		**157**	119
Net cash (outflow)/inflow from operating activities		**(124,046)**	25,393
Cash flows from investing activities			
Interest received	6	**1,104**	3,284
Purchases of property, plant and equipment	15	**(311)**	(1,424)
Acquisition of available-for-sale investments	21	**(740)**	—
Proceeds from disposal of property, plant and equipment		**1,483**	39,604
Proceeds on disposal of other assets		**4,800**	—
Proceeds on transfer of prepaid land premiums		**—**	12,740
Proceeds from disposal of investment properties		**—**	1,722
Disposals of subsidiaries, net of cash disposed	34	**(2,728)**	(8)
(Increase)/decrease in restricted deposits		**(227)**	7,609
Net cash inflow from investing activities		**3,381**	63,527
Cash flows from financing activities			
Inceptions of new bank loans		**32,547**	78,582
Repayment of bank loans		**(34,545)**	(202,808)
Inceptions of other loans from third parties		**19,297**	—
Advances from executive director, net		**1,629**	3,000
Decrease in pledged deposits		**56,815**	18,253
Interest paid	7	**(2,069)**	(6,393)
Interest element on finance lease rental payments	7	**—**	(46)
Repayment of finance lease payables		**—**	(1,255)
Net cash inflow/(outflow) from financing activities		**73,674**	(110,667)
Net decrease in cash and cash equivalents		**(46,991)**	(21,747)
Cash and cash equivalents at beginning of year		**42,853**	71,483
Effect of foreign exchange rate changes, net		**9,081**	(6,883)
Cash and cash equivalents at end of year		**4,943**	42,853
Analysis of balances of cash and cash equivalents			
Cash and bank balances	26	**4,943**	42,853

Notes to the Financial Statements

31 December 2009

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 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 Shing 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.

The Company's holding company is Z-Idea Company Limited ("Z-Idea"), a company incorporated in the British Virgin Islands (the "BVI"), which is also regarded by the Company's directors (the "Directors") as the Company's ultimate holding company.

2.1 BASIS OF PRESENTATION

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

As at 31 December 2009, the Group had net current liabilities and deficit in equity of approximately HK$172,164,000 (2008: HK$137,778,000) and HK$70,128,000 (2008: net assets of HK$5,149,000) respectively; and the Company had net current liabilities and deficit in equity of approximately HK$7,795,000 (2008: HK$6,435,000) and HK$8,923,000 (2008: HK$57,774,000) respectively. The Group incurred a loss of approximately HK$88,207,000 for the year ended 31 December 2009 (2008: HK$113,265,000). As stated in note 27 of the financial statements, certain creditors of the Group's two subsidiaries have taken legal actions to recover overdue balances of approximately HK$23,000,000. In accordance with certain court orders, certain subsidiaries' assets in the People's Republic of China ("PRC") of approximately HK$16,200,000 have been frozen.

In preparing the financial statements, the Directors have given careful consideration to the future liquidity and financial positions of the Group and the Company in light of the financial positions as described in the preceding paragraph. The Directors are taking active measures to improve the working capital position of the Group and the Company as described below.

- The Group has been taking stringent cost controls in general and administrative expenses;

- In April 2010, the Group is in the process of negotiating with a bank in the PRC to obtain new banking facility of approximately Renminbi ("RMB") 54,600,000 (approximately HK$62 million) to finance the Group's working capital requirements. Such facility will be secured by certain of the Group's land and buildings in the PRC with an aggregate carrying value of HK$62,162,000 which are currently secured for bank loans amounting to HK$22,760,000 from another PRC bank as at 31 December 2009. Directors intend to use the new bank loan to repay the existing bank loans with the excess of approximately HK$39 million for financing working capital;

- The Group is in the process of reaching an agreement for debts restructuring with certain trade creditors who petitioned to the court to freeze the assets of certain Group's subsidiaries;

Notes to the Financial Statements

31 December 2009

2.1 BASIS OF PRESENTATION *(continued)*

- Certain independent third parties provided financial support to the Group in the form of other loans amounting to approximately HK$20,293,000 as at 31 December 2009 which are detailed in note 28 of the financial statements. Subsequent to the end of the reporting period, further loans amounting to approximately HK$21 million have been provided by these third parties; and

- A major shareholder and potential investor of the Company have agreed to provide unsecured loan facilities of RMB80,000,000 (approximately HK$91 million) and RMB25,000,000 (approximately HK$28 million) respectively to the Group and the Company.

On the basis that (a) the above new financial support will be available from the major shareholder, potential investor and creditors (b) the new PRC bank loans can be secured; (c) the Group's future operations can generate sufficient cash flows, and (d) the Group is able to successfully implement the cost control in the foreseeable future, the Directors are confident that both the Group and the Company will be able to meet their financial obligations as they fall due for twelve months from 31 December 2009. Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 December 2009 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 the "HKFRSs") and the disclosure requirement of the Hong Kong Companies Ordinance. 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.

(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) Functional and presentation currency

The financial statements are presented in Hong Kong dollar ("HK$"), which is the functional currency of the Company. The functional currencies of its principal subsidiaries are RMB and HK$.

Notes to the Financial Statements

31 December 2009

2.3 ADOPTION OF HKFRSs

(a) The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Interpretation 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) — Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) — Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Interpretation 18	Transfers of Assets from Customers

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes concerning presentation of financial statements. All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards. Comparative figures have been restated or included in these financial statements in order to achieve a consistent presentation.

HKAS 1 (Revised), Presentation of Financial Statements

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the "Statement of Comprehensive Income", the "Statement of Financial Position" and the "Statement of Cash Flows" respectively. All income and expenses arising from transactions with non-owners are presented under the "Statement of Comprehensive Income"; while the owners' changes in equity are presented in the "Statement of Changes in Equity".

HKFRS 8 Operating Segments

HKFRS 8 replaces HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

Notes to the Financial Statements

31 December 2009

2.3 ADOPTION OF HKFRSs *(continued)*

(a) *(continued)*

HKFRS 7 (Amendments), Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosures relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level fair value hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

(b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[4]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKFRS 9	Financial Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met. If the information necessary to apply the amendment retrospectively is not available, the Group will recognise the related asset and liability at their fair values on the date of adoption and recognise the difference in accumulated losses.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the Director so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise of 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 statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Minority interests represent the portion of the profit or loss and assets of subsidiaries attributable to equity interests that are not owned directly or indirectly through subsidiaries by the Company. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the owners 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, the groups interest is allocated all such profits 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 statement of financial position, 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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount 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.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

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.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate 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 stated at cost less accumulated impairment losses. Goodwill arising on a business combination is capitalised as a separate asset with any impairment in carrying amount being recognised in profit or loss. In respect of associates, goodwill is included in the carrying amount of the interest in associate and the investment as a whole is tested for impairment whether there is objective evidence of impairment.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date after re-assessment.

For the purpose of impairment testing, goodwill arising from business combination 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-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Prior to 31 December 2008, the building component of owner-occupied leasehold properties was stated at cost less accumulated depreciation and accumulated impairment losses. With effect from 31 December 2008, the building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. 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 end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter charged to profit or loss. Any subsequent increases are recognised in profit or loss 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 accumulated loss.

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 recognised as an expense in profit or loss 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 the end of each reporting 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 profit or loss on disposal.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Investment properties

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

Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of the retirement or disposal.

(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 leasee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(i) Leasing

Leases are classified as finance leases 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 profit or loss 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 lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in the profit or loss 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.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

(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 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, 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. 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.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss 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. 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. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

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.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- 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 profit or loss 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 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 profit or loss.

Any impairment losses available-for-sale debt investments are subsequently reversed in profit or loss 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 other comprehensive income.

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 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(iii) Financial liabilities

Financial liabilities at amortised cost including trade and other payables and borrowings are initially recognised at fair value net of directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(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.

(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.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss, or in other comprehensive income if it relates to items that are recognised in other comprehensive income in the same or a different period.

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 end of the reporting period 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.

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 reporting 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 reporting 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 end of the reporting period.

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.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 end of reporting period. 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 profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised directly in other comprehensive income.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) 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 end of reporting period. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised in other comprehensive income and accumulated in foreign exchange reserve. Exchange differences recognised in the profit or loss 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 foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss 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 end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 reporting 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 statement of comprehensive income 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.

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.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 profit or loss 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 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 profit or loss as they become payable in accordance with the rules.

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

At the end of each reporting period, 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;
- club membership;
- other asset;
- interests in prepaid land premiums under operating leases; 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 immediately in profit or loss, 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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

Notes to the Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Impairment of available-for-sale investments

The Directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

(ii) 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.

(iii) 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.

Notes to the Financial Statements

31 December 2009

4. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

(i) Operating/Reportable segments

The Group has two operating segments, namely, (i) the design of the chassis of colour televisions and the trading of related components segment, and (ii) the assembling of colour television set segment. The design of the chassis of colour televisions and the trading of related components segment is the Group's sole reportable segment as it constitutes more than 90% of the Group's revenue, results and assets for the years of 2009 and 2008.

(ii) Geographical information

The following tables provide an analysis of the Group's revenue from external customers and non-current assets other than financial instruments ("Specified non-current assets").

	Revenue from external customers	
	2009	2008
	HK$'000	HK$'000
PRC	**120,411**	198,128
Asia (other than PRC)	**44,511**	134,480
Europe	**1,264**	155,667
South America	**41**	26,073
Others	**1,291**	5,535
	167,518	519,883

	Specified non-current assets	
	2009	2008
	HK$'000	HK$'000
PRC	**96,506**	128,003
Hong Kong	**10,069**	16,478
Europe	**–**	140
Japan	**–**	50
	106,575	144,671

(iii) Major customer

For the year of 2009 and 2008, none of a single external customer with transactions amounted to 10% or more of the Group's revenue.

Notes to the Financial Statements

31 December 2009

5. TURNOVER

Turnover, which is also the Group's revenue, 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.

6. OTHER INCOME AND GAINS

	2009 HK$'000	2008 HK$'000
Bank interest income	**1,104**	3,284
Gain on disposals of subsidiaries, net (note 34)	**3,734**	115
Rental income from investment properties	**—**	76
Gain on disposal of property, plant and equipment, net	**—**	1,157
Gain on transfer of prepaid land premiums	**—**	9,121
Gain on disposal of other asset	**363**	—
Reversal of impairment of other receivables	**—**	236
Others	**1,225**	1,342
	6,426	15,331

7. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on:		
— bank loans wholly repayable within five years	**1,743**	5,935
— other loans	**326**	458
— overdue trade payables	**245**	—
— finance lease payables	**—**	46
	2,314	6,439

Notes to the Financial Statements

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8. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging/(crediting):

	2009 HK$'000	2008 HK$'000
Carrying amount of inventories sold	**147,179**	476,281
Write-down of inventories	**12,347**	10,854
Reversal of inventory write-down (Note)	**(5,999)**	(5,191)
Costs of inventories recognised as expense	**153,527**	481,944
Employee benefit expenses (including directors' remunerations — note 9)		
— Wages and salaries	**21,818**	47,549
— Equity-settled share option expense	**—**	276
— Pensions scheme contributions	**6,152**	7,673
	27,970	55,498
Depreciation of property, plant and equipment (note 15)	**13,571**	12,628
Depreciation of investment properties (note 16)	**—**	40
Amortisation of prepaid land premiums (note 17)	**206**	275
Minimum lease payments under operating leases in respect of:		
— land and buildings	**3,173**	950
— plant and machinery	**—**	288
Auditors' remuneration		
— current year	**1,024**	1,450
— prior year	**400**	1,520
Direct operating expenses from investment properties that generated rental income during the year	**—**	22
Impairment of property, plant and equipment (note 15)	**14,654**	—
Impairment of available-for-sale investment (note 21)	**632**	—
Loss on disposal of property, plant and equipment	**603**	—
Loss on disposal of investment properties	**—**	112
Loss on disposal of equity investments at fair value through profit or loss	**—**	1,068
Exchange losses, net	**3,017**	8,658
Impairment of amount due from associate (note 20)	**168**	—
Impairment of trade receivables	**8,522**	49,328
Impairment of other receivables	**336**	—

Note: The reversal of inventory write-down arising from an increase in net realisable value was caused by the increase in estimated scrap value.

Notes to the Financial Statements

31 December 2009

9. 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:

	2009 HK$'000	2008 HK$'000
Fees	**600**	583
Other emoluments:		
Salaries, allowances and benefits in kind	**4,273**	8,297
Employee share option benefits	**—**	87
Pension scheme contributions	**12**	24
	4,285	8,408
	4,885	8,991

In 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 profit or loss, 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:

	2009 HK$'000	2008 HK$'000
Mr. Ede Hao Xi, Ronald	**—**	67
Mr. Li Yueh Chen	**—**	54
Mr. Mu Xiangming	**187**	142
Mr. Chiu Chi Cheong	**—**	117
Mr. Martin He	**216**	75
Mr. Selwyn Mar	**—**	120
Mr. Lam Chun	**—**	8
Mr. Kwong Ping Man	**197**	—
	600	583

There were no other emoluments payable to the Independent Non-Executive Directors during the year (2008: Nil).

Notes to the Financial Statements

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9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive Directors

	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009				
Mr. Zhang Shuyang	**2,977**	**—**	**12**	**2,989**
Mr. Leung Koon Sing	**1,296**	**—**	**—**	**1,296**
	4,273	**—**	**12**	**4,285**
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

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.

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10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2008: three) were Directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining three (2008: two) individuals were as follows:

	2009 HK$'000	2008 HK$'000
Salaries, allowances and benefits in kind	**1,501**	2,196
Employee share option benefits	**–**	32
Contributions to pension scheme	**12**	12
	1,513	2,240

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

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	3	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.

Notes to the Financial Statements

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11. INCOME TAX (CREDIT)/EXPENSE

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 tax rate of corporate income tax ("CIT") of subsidiaries operating in PRC is at standard rate of 25% except two subsidiaries, East Kit (Shanghai) and East Kit (China), which 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 PRC. The CIT rate applied to East Kit (Shanghai) and East Kit (China) for the Year was 15% (2008: 15%). The CIT rate applied to Mitsumaru (Wuhu) for the year was 25% (2008: 12.5%).

The amount of income tax in the consolidated statement of comprehensive income represents:

	2009 HK$'000	2008 HK$'000
Current tax:		
Provision for the year		
— PRC	**—**	937
— Overseas	**—**	14
	—	951
Under/(over)-provision in respect of prior years		
— HK	**(116)**	—
— PRC	**30**	(333)
	(86)	618
Deferred tax		
— Origination and reversal of temporary differences	**(388)**	2,512
Total income tax (credit)/expense	**(474)**	3,130

The income tax (credit)/expense for the year can be reconciled to the losses per the consolidated statement of comprehensive income as follows:

	2009 HK$'000	2008 HK$'000
Loss before income tax expense	**(88,681)**	(110,135)
Tax calculated at the domestic tax rate of 16.5% (2008: 16.5%)	**(14,632)**	(18,172)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**681**	63
Tax effect of share of loss of an associate	**1,205**	397
Effect on opening deferred tax balances resulting from an decrease in applicable tax rate	**—**	(44)
Tax effect of revenue not taxable for tax purposes	**(8,726)**	(369)
Tax effect of expenses not deductible for tax purposes	**11,966**	1,315
Tax effect of tax losses not recognised	**9,643**	22,375
Tax effect of deductible temporary differences not recognised	**(469)**	(2,102)
Utilization of tax loss not recognised previously	**(56)**	—
Over-provision in respect of prior years	**(86)**	(333)
Income tax (credit)/expense	**(474)**	3,130

In addition to the amount charged to the profit or loss, deferred tax relating to the revaluation of the Group's certain leasehold buildings during the year has been charged to other comprehensive income.

Notes to the Financial Statements

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12. LOSS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The loss attributable to ordinary equity holders of the Company for the year ended 31 December 2009 includes a loss of HK$11,260,000 (2008: HK$12,912,000) which has been dealt with in the financial statements of the Company (note 33(b)).

	2009 HK$'000	2008 HK$'000
(Profit)/loss of the Company (note 33(b))	**(48,851)**	175,942
Less: Impairment on amounts due from subsidiaries	**(130)**	(139,181)
Impairment on investment costs	**—**	(23,849)
Write-back of amounts due to subsidiaries	**60,241**	—
Loss dealt with in financial statements of the Company	**11,260**	12,912

13. 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$88,564,000 (2008: HK$112,483,000), and 400,000,000 (2008: 400,000,000) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2009 and 2008 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.

14. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2009			2008		
	HK$ Before-tax amount	HK$ Tax expenses	HK$ Net-of-tax amount	HK$ Before-tax amount	HK$ Tax expenses	HK$ Net-of-tax amount
Release of exchange reserves on disposal of subsidiaries	**798**	**—**	**798**	—	—	—
Exchange differences on translating foreign operations	**10,896**	**—**	**10,896**	(2,905)	—	(2,905)
Gain on revaluation of buildings	**3,391**	**(2,155)**	**1,236**	21,877	(2,336)	19,541
	15,085	**(2,155)**	**12,930**	18,972	(2,336)	16,636

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15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2008		100,051	39,296	10,311	32,187	181,845
Additions at cost		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 and 1 January 2009		70,251	41,087	10,911	34,480	156,729
Additions at cost		—	2	—	309	311
Disposals		(2,200)	—	(82)	—	(2,282)
Disposal of subsidiaries		—	—	—	(582)	(582)
Deficit on revaluation		(898)	—	—	—	(898)
Exchange realignments		342	16	37	305	700
At 31 December 2009		67,495	41,105	10,866	34,512	153,978
Comprising:						
2009						
At cost		—	41,105	10,866	34,512	86,483
At valuation		67,495	—	—	—	67,495
		67,495	41,105	10,866	34,512	153,978
Accumulated depreciation and impairment						
At 1 January 2008		12,814	9,755	4,596	16,315	43,480
Depreciation	8	3,947	3,470	734	4,477	12,628
Eliminated on disposals		(6,834)	—	—	(294)	(7,128)
Eliminated on disposal of subsidiary		—	—	—	(3)	(3)
Eliminated on revaluation		(10,571)	—	—	—	(10,571)
Exchange realignments		644	413	261	886	2,204
At 31 December 2008 and 1 January 2009		—	13,638	5,591	21,381	40,610
Depreciation	8	4,405	4,179	882	4,105	13,571
Eliminated on disposal of subsidiaries		—	—	—	(420)	(420)
Eliminated on disposals		(122)	—	(74)	—	(196)
Impairment loss	8	—	14,654	—	—	14,654
Eliminated on revaluation		(4,289)	—	—	—	(4,289)
Exchange realignments		6	46	19	92	163
At 31 December 2009		—	32,517	6,418	25,158	64,093
Net book value						
At 31 December 2009		67,495	8,588	4,448	9,354	89,885
At 31 December 2008		70,251	27,449	5,320	13,099	116,119

Notes to the Financial Statements

31 December 2009

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

Group *(continued)*

At 31 December 2009, the following were pledged to secure bank loans granted to the Group (note 29):

(a) certain of the Group's leasehold land and buildings with net carrying amounts of HK$67,495,000 (2008: HK$68,152,000). The related leasehold land element of HK$8,338,000 (2008: HK$8,513,000) is included in the "prepaid land premiums" as set out in note 17 to the financial statements; and

(b) plant and machinery with net carrying amounts of HK$5,280,000 as at 31 December 2008, which was released on full repayment of the corresponding secured bank loan during the year.

As at 31 December 2009, the Group's leasehold land and buildings are valued on a depreciated replacement cost basis by an independent professional valuer, Asset Appraisal Limited. The revaluation surplus net of applicable deferred income taxes is recognised in other comprehensive income and accumulated in building revaluation reserves within equity.

Had the revalued properties been measured on a historical cost basis, their net book value would have been HK$39,210,000 (2008: HK$48,374,000).

As at 31 December 2009, certain assets of approximately HK$16.2 million of two major PRC subsidiaries have been subject to freezing orders obtained by certain creditors of the Group, the details of which are stated in note 27 of the financial statements.

At the end of the current reporting period, the Directors identified certain plant and machinery that have been idled or under-utilised for a prolonged period of time, based on value in use calculation, an impairment loss of HK$14,654,000 is recognised and included in other operating expenses.

16. INVESTMENT PROPERTIES

	Group HK$'000
Cost	
At 1 January 2008	1,928
Disposal	(1,928)
At 31 December 2008 and 2009	—
Accumulated depreciation	
At 1 January 2008	54
Provided during the year (note 8)	40
Eliminated on disposal	(94)
At 31 December 2008 and 2009	—
Net book value	—

The Group's investment properties were situated in Hong Kong and held under medium term leases. The Group disposed of its investment properties during 2008.

Notes to the Financial Statements

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17. PREPAID LAND PREMIUMS

The Group's prepaid land premiums comprise:

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**8,514**	11,741
Recognised during the year (note 8)	**(206)**	(275)
Disposal	**—**	(3,620)
Exchange realignment	**30**	668
Carrying amount at 31 December	**8,338**	8,514
Current portion included in prepayments, deposits and other receivables	**(207)**	(217)
Non-current portion	**8,131**	8,297

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

18. GOLF CLUB MEMBERSHIP

	Group	
	2009	2008
	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 end of reporting period.

Notes to the Financial Statements

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19. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**103,074**	103,074
Amounts due from subsidiaries	**140,115**	140,655
Amounts due to subsidiaries	**–**	(51,571)
	243,189	192,158
Impairment#	**(243,189)**	(243,729)
	–	(51,571)
Due to subsidiaries classified as non-current liabilities	**–**	51,571
	–	–

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

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

Impairment losses were recognised during the years ended 31 December 2008 and 2009 due to sustained loss making conditions of the respective subsidiaries.

As at 31 December 2009, included in the above impairment was a provision of HK$140,115,000 (2008: HK$140,655,000) on amounts due from subsidiaries. Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	2009	2008
	HK$'000	HK$'000
At 1 January	**140,655**	1,474
Transferred to prepayment, deposits and other receivables (note 24)	**(670)**	–
Impairment loss recognised	**130**	139,181
At 31 December	**140,115**	140,655

Notes to the Financial Statements

31 December 2009

19. INTERESTS IN SUBSIDIARIES *(continued)*

Details 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.*# ("East Kit (China)")	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.*# ("East Kit (Shanghai)")	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.*# ("Mitsumaru (Wuhu)")	PRC	Paid-up registered US$1,300,000	—	100	Assembling of colour television sets and other electronic components
Mitsumaru East Kit (Group) Limited#	BVI	HK$1	100	—	Investment holding
Dragon Gain Resources Limited#	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 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 reporting period.

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20. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets of associates	**8,559**	15,818
Amount due from associate	**168**	—
Less: impairment (note 8)	**(168)**	—
Shares of net assets	**8,559**	15,818

Amount due from associate is unsecured, interest free and repayable on demand.

Details of the associates 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
Mitsumaru (Japan) Ltd.* (note 34)	Japan	Paid-up registered JPY52,500,000	41.5%	Trading of electronic components

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

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

	2009	2008
	HK$'000	HK$'000
Assets	**44,151**	41,874
Liabilities	**27,418**	787
Revenue	**6,657**	2,661
Loss	**18,825**	5,097

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21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Unlisted equity investments, at cost	**972**	232	**232**	232
Less: impairment (note 8)	**(632)**	—	**(232)**	—
	340	232	**—**	232

The above investments consist of investments 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 2009, unlisted equity investments of the Group with a carrying amount of HK$972,000 (2008: 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.

One of the Group's investments is a 21.7% interests in Shanghai Zhan Cheng Electronic Technology Co. Ltd.. This company is not accounted for on an equity method as the Group does not have the power to participate in the Company's operating and financial policies, evidenced by the lack of any direct or indirect involvement at board level.

22. INVENTORIES

	Group	
	2009 HK$'000	2008 HK$'000
Raw materials	**16,813**	23,156
Work in progress	**—**	129
Finished goods	**12,839**	25,227
	29,652	48,512

23. TRADE AND NOTES RECEIVABLES

	Group	
	2009 HK$'000	2008 HK$'000
Trade and notes receivables	**164,209**	218,241
Impairment	**(148,544)**	(143,899)
	15,665	74,342

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 to 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.

Notes to the Financial Statements

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23. TRADE AND NOTES RECEIVABLES *(continued)*

An ageing analysis of the trade receivables (net of impairment loss) as of the end of reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 90 days	**8,257**	36,523
91 days to 180 days	**3,786**	12,042
181 days to 1 year	**3,622**	7,745
Over 1 year	**—**	18,032
	15,665	74,342

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**143,899**	89,470
Impairment losses recognised	**12,453**	49,328
Recovery of impairment loss previously recognised	**(3,931)**	—
Eliminated on disposal of subsidiary	**(3,000)**	—
Bad debts written off	**(1,186)**	—
Exchange realignments	**309**	5,101
At 31 December	**148,544**	143,899

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$12,453,000 (2008: HK$49,328,000) with carrying amount of HK$13,255,000 (2008: HK$93,065,000). 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 ageing of trade debtors which are past due but not impaired are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Less than 1 month past due	**3,062**	9,336
1 to 3 months past due	**7,558**	9,738
More than 3 months but less than 12 months past due	**2,082**	897
	12,702	19,971

Receivables that were past due but not impaired relate to a number of independent customers that have a good settlement 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.

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**2,569**	9,189	**—**	—
Amount due from associate (note 20)	**168**	—	**670**	—
Deposits and other receivables	**6,780**	15,744	**109**	109
	9,517	24,933	**779**	109
Impairment	**(3,562)**	(3,058)	**(670)**	—
	5,955	21,875	**109**	109

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$3,394,000 (2008: HK$3,058,000) and amount due from associate of HK$168,000 (2008: nil) with a carrying amount of HK3,922,000 (2008: HK$3,586,000) and HK$168,000 (2008: nil) respectively. 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.

25. RESTRICTED DEPOSITS

Pursuant to the court orders, certain creditors have taken legal actions under the PRC laws against East Kit (China) and East Kit (Shanghai). The court has restricted the use of certain bank accounts of East Kit (China) and East Kit (Shanghai) with bank balances of HK$227,000 at 31 December 2009. (note 27)

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2009	2008	**2009**	2008
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**5,051**	42,853	**900**	221
Time deposits		**773**	57,700	**—**	—
		5,824	100,553	**900**	221
Less: Pledged time deposits for banking facilities	29	**(881)**	(57,700)	**—**	—
Cash and cash equivalents		**4,943**	42,853	**900**	221

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

At the end of reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$2,499,000 (2008: HK$35,933,000). 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 ageing analysis of the trade and bills payables as at the end of reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 180 days	**44,415**	217,010
181 days to 1 year	**20,471**	57,196
1 to 2 years	**81,357**	32,814
Over 2 years	**14,808**	14,938
	161,051	321,958

As at 31 December 2009, two PRC subsidiaries, East Kit (China) and East Kit (Shanghai), have been sued by certain trade creditors for non-payment of outstanding trade balances. Included in the trade and bills payables are trade payable balances of approximately HK$23,000,000 under litigations as at the end of reporting period and an additional amount of HK$3,000,000 subsequent to the end of reporting period.

As at 31 December 2009, there are court orders issued by which East Kit (China)'s and East Kit (Shanghai)'s bank deposits or assets with equivalent values amounted to approximately HK$16.2 million have been frozen until full repayment to trade creditors. However, there are no specifications of the kinds of frozen assets under the court orders and the Directors are unaware of any assets that cannot be freely used except for certain bank deposit accounts amounting to approximately HK$227,000 at 31 December 2009, which is reclassified under restricted deposits (note 25).

Included in the trade and bills payables are balances of HK$24,284,000 (2008: HK$107,193,000) which were secured by a time deposit of HK$881,000 (2008: HK$57,700,000) (note 26).

Notes to the Financial Statements

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28. OTHER LOANS

	Group		Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Unsecured other loans from:				
Interest bearing				
— executive director (note 38 and Note (a))	**4,629**	3,000	**4,629**	3,000
— third parties (Note (b))	**1,562**	996	**565**	—
Non-interest bearing				
— third parties (Note (c))	**18,731**	—	**—**	—
	24,922	3,996	**5,194**	3,000

The carrying amounts of the above loans approximate their fair values.

At 31 December 2009, total other borrowings were repayable as follows:

	Group		Company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Within 1 year	**23,794**	3,996	**4,066**	3,000
After 1 year but within 2 years	**1,128**	—	**1,128**	—
	24,922	3,996	**5,194**	3,000

Notes:

(a) Loans from director are unsecured with interest charged at fixed rates of 5% and 9% per annum on the respective loans. Included in loans from director is a loan of approximately HK$563,000 repayable on 13 September 2011. The remaining loans are repayable within one year.

(b) Loans from third parties are unsecured with interest charged at fixed rates of 5% and 9% per annum on the respective loans. Included in these loans are loans of approximately HK$565,000 repayable in November 2011.

(c) These non-interest bearing loans from third parties are repayable within one year.

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29. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group 2009 HK$'000	Group 2008 HK$'000
Bank loans — current and secured	5.103—6.66	2010	**22,760**	24,671

At 31 December 2009, the Group's bank loans, together with the banking facilities, were secured by the following:

(a) pledge over the Group's leasehold land and buildings situated in PRC, which has an aggregate carrying value at the end of reporting period of approximately HK$67,495,000 (2008: HK$68,152,000). The related leasehold land element of HK$8,338,000 (2008: HK$8,513,000) is included in the "prepaid land premiums" as set out in note 17 to the financial statements (note 15).

(b) pledge over the Group's plant and machinery of HK$ 5,280,000 at 31 December 2008, which was released on full repayment of the corresponding secured bank loan during the year (note 15).

Other interest rate information:

	Group 2009 Floating rate HK$'000	Group 2008 Fixed rate HK$'000	Group 2008 Floating rate HK$'000
Bank loans — secured	**22,760**	17,010	7,661

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

Notes to the Financial Statements

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30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the current and prior years are as follows:

Group

Deferred tax assets	Impairment of trade receivables HK$'000
At 1 January 2008	4,060
Charged to profit or loss (note 11)	(4,253)
Exchange realignments	193
At 31 December 2008 and 2009	—

The Group has accumulated tax losses arising in Hong Kong and PRC of HK$106,526,000 (2008: HK$129,311,000) and HK$234,550,000 (2008: HK$193,195,000) respectively. 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.

Tax losses in Hong Kong can be carried forward indefinitely while tax losses in PRC will expire as follows:

	2009 HK$'000	2008 HK$'000
Years:		
2010	**48,366**	48,196
2011	**—**	—
2012	**—**	—
2013	**145,510**	144,999
2014	**40,674**	—
	234,550	193,195

Notes to the Financial Statements

31 December 2009

30. DEFERRED TAX *(continued)*

Group *(continued)*

Deferred tax liabilities	Uninvoiced sales HK$'000	Buildings revaluation reserve HK$'000	Total HK$'000
At 1 January 2008	1,662	—	1,662
Credited to profit or loss (note 11)	(1,741)	—	(1,741)
Charged to reserve (note 14)	—	2,336	2,336
Exchange realignments	79	—	79
At 31 December 2008 and 1 January 2009	—	2,336	2,336
Credited to profit or loss (note 11)	—	(388)	(388)
Charged to reserve (note 14)	—	2,155	2,155
Exchange realignments	—	8	8
At 31 December 2009	—	4,111	4,111

31. SHARE CAPITAL

Authorised and issued share capital

	2009 HK$'000	2008 HK$'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.

Notes to the Financial Statements

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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.

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 2009 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

Notes to the Financial Statements

31 December 2009

32. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme *(continued)*

(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 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:

	2009		2008	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
At 1 January	**1.068**	**24,410**	1.068	29,820
Lapsed during the year	**1.068**	**(1,710)**	1.068	(5,410)
At 31 December	**1.068**	**22,700**	1.068	24,410

The exercise prices and exercise periods of the share options outstanding as at the end of reporting period are as follows:

2009:

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
22,700	**1.068**	25 June 2004 to 24 June 2014

2008:

Number of options '000	Exercise price* HK$ per share	Exercise period
24,410	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.

Notes to the Financial Statements

31 December 2009

32. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme *(continued)*

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. No share option expense is recognised during the year ended 31 December 2009 (2008: HK$276,000). 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.

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 37 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 PRC, the subsidiaries operating in PRC are required to transfer 10% of their profits after tax, as determined under the accounting regulations in 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 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.

Notes to the Financial Statements

31 December 2009

33. RESERVES *(continued)*

(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 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	—
Total comprehensive income for the year	—	—	—	(175,942)	(175,942)
At 31 December 2008 and 1 January 2009	52,557	5,494	98,938	(254,763)	(97,774)
Share options lapsed during the year	—	(333)	—	333	—
Total comprehensive income for the year	—	—	—	48,851	48,851
At 31 December 2009	52,557	5,161	98,938	(205,579)	(48,923)

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 2.4 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.

Notes to the Financial Statements

31 December 2009

34. DISPOSALS OF SUBSIDIARIES

On 13 February 2009, the Group disposed all its equity interest in two subsidiaries, Crown Joint Investment Limited and Kaern GmbH. The proceeds on disposal of HK$1 were received in cash.

On 16 December 2009, a non-wholly owned subsidiary, Mitsumaru (Japan) Limited ("MJP"), allotted new shares to a third party and an existing director of MJP pursuant to investment agreements dated 18 September 2009 and 5 November 2009 respectively. After the allotment, the Group's equity interests decreased from 67.5% to 41.5% and the Group no longer has control over MJP which is principally engaged in trading of electronic components. Accordingly, MJP was reclassified as an associate of the Group, and were equity accounted for thereafter. A gain on deemed disposals of HK$5,215,000 for the year ended 31 December 2009 is resulted from this allotment.

The net liabilities disposed in these transctions are as follows:

	HK$'000
Property, plant and equipment	162
Trade receivables	3,705
Inventories	12,605
Prepayment and other receivables	2,686
Cash and bank balances	2,728
Accounts payables	(22,699)
Accruals and other payables	(3,719)
Net identifiable liabilities	(4,532)
Release of exchange on disposal of subsidiaries	798
Net gain on disposals (note 6)	3,734
Total consideration	—
Net cash outflow arising on disposals:	
Cash consideration	—
Cash and bank balance disposed of	(2,728)
	(2,728)

35. PLEDGE OF ASSETS

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

Notes to the Financial Statements

31 December 2009

36. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leased its investment properties (note 16) 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 of 2008, the Group disposed of its entire investment properties.

As lessee

During the year ended 31 December 2009, the Group leased its office properties under operating lease arrangements which were negotiated for terms of one to three years. At 31 December 2009, the Group's minimum lease obligation under non-cancellable operating leases in respect of land and buildings details are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**3,020**	2,192
In the second to fifth years, inclusive	**2,667**	5,048
	5,687	7,240

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for the capital contribution payable to available-for-sale investment	**–**	810

At the end of reporting period, neither the Group nor the Company has any other significant commitments.

Notes to the Financial Statements

31 December 2009

38. RELATED PARTY TRANSACTIONS

Saved as disclosed in note 9, 24 and 28 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 2009 HK$'000	Transaction amount 2008 HK$'000	Balance owed/(owing) 2009 HK$'000	Balance owed/(owing) 2008 HK$'000
Substantial shareholder	Sales	**1,137**	13,098	**3,374**	2,785
— 數源科技股份有限公司	Purchases	**1,843**	15,240	**—**	—
(Note)	Sub-contracting fee	**—**	4,634	**—**	—

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

(i) amounts due from certain companies of the certain executive directors totaling HK$134,000 (2008: HK$174,000). The balances due are unsecured, interest-free and have no specific terms of repayment; and

(ii) amount due from a minority shareholder of a subsidiary amounting to HK$72,000 as at 31 December 2008. As at 31 December 2009, the amount is reclassified to other receivables as the subsidiary is reclassified as associate in 2009 (note 34). The balance due is unsecured, interest-free and has no specific terms of repayment.

(c) Included in other payables, accrued expenses and deposits at 31 December 2009 are accrued interest payable to an executive director, Mr Zhang Shuyang, totaling HK$280,000 (2008: HK$32,000) in respect of other loans from executive director as disclosed in note 28.

(d) The interest expense on other loans from an executive director of HK$326,000 (2008: HK$458,000) was charging at the rate of 5% and 9% (2008: 9%) per annum on the respective loans.

(e) The interest income from loans to executive directors of HK$38,000 for the year ended 31 December 2008 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 2009 or 2008 regarding related party transactions.

Note: 數源科技股份有限公司 owns 9.52% (2008: 9.52%) equity interest in the Company and is a substantial shareholder of the Company.

Notes to the Financial Statements

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

	Group					
	Loans and receivables		Available-for-sale financial assets		Total	
Financial assets	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Available-for-sale investment (note 21)	**–**	–	**340**	232	**340**	232
Trade and notes receivables	**15,665**	74,342	**–**	–	**15,665**	74,342
Financial assets included in prepayments, deposits and other receivables	**5,955**	19,164	**–**	–	**5,955**	19,164
Pledged deposits	**881**	57,700	**–**	–	**881**	57,700
Restricted cash	**227**	–	**–**	–	**227**	–
Cash and cash equivalents	**4,943**	42,853	**–**	–	**4,943**	42,853
	27,671	194,059	**340**	232	**28,011**	194,291

	Group	
	Financial liabilities at amortised cost	
Financial liabilities	**2009 HK$'000**	2008 HK$'000
Trade and bills payables	**161,051**	321,958
Financial liabilities included in other payables, accrued expenses and deposits received	**20,958**	31,585
Other loans	**24,922**	3,996
Interest-bearing bank loans	**22,760**	24,671
	229,691	382,210

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at 31 December 2009.

Notes to the Financial Statements

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instrument as at the end of reporting period are as follows (continued):

	Company					
	Loans and receivables		Available-for-sale financial assets		Total	
Financial assets	**2009** **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
Available-for-sale investment (note 20)	**–**	–	**–**	232	**–**	232
Financial assets included in prepayments, deposits and other receivables	**109**	109	**–**	–	**109**	109
Cash and cash equivalents	**900**	221	**–**	–	**900**	221
	1,009	330	**–**	232	**1,009**	562

	Company	
	Financial liabilities at amortised cost	
Financial liabilities	**2009** **HK$'000**	2008 HK$'000
Due to subsidiaries	**–**	51,571
Other loans	**5,194**	3,000
Financial liabilities included in other payables, accrued expenses and deposits received	**4,738**	3,765
	9,932	58,336

The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at 31 December 2009.

Notes to the Financial Statements

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40. 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 2009, 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
2009					
Hong Kong dollar	**100**	**289**	**289**	**100**	**61**
2008					
Hong Kong dollar	100	274	274	100	32

Notes to the Financial Statements

31 December 2009

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

(b) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in HK$, RMB and United States Dollar ("US$"). 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 end of reporting period 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
2009			
If Hong Kong dollar weakens against RMB	**4**	**(1,152)**	**(1,152)**
2008			
If Hong Kong dollar weakens against RMB	5	(2,704)	(2,704)

(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. 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 mainly include cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Notes to the Financial Statements

31 December 2009

40. 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 end of reporting period, based on the contracted undiscounted payments, was as follows:

Group

	2009				
	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	**92,136**	**48,444**	**20,471**	**—**	**161,051**
Financial liabilities included in other payables, accrued expenses and deposits received	**20,958**	**—**	**—**	**—**	**20,958**
Other loans	**18,731**	**—**	**5,531**	**1,187**	**25,449**
Interest-bearing bank loans	**—**	**24,134**	**—**	**—**	**24,134**
	131,825	**72,578**	**26,002**	**1,187**	**231,592**

	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	31,585	—	—	—	31,585
Other loans	—	—	360	4,388	4,748
Interest-bearing bank loans	—	7,121	18,861	—	25,982
	79,337	224,915	75,633	4,388	384,273

Notes to the Financial Statements

31 December 2009

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

(d) Liquidity risk *(continued)*

2009 — Company	**On demand HK$'000**	**Over one year HK$'000**	**Total HK$'000**
Other loans	**4,412**	**1,184**	**5,596**
	4,412	**1,184**	**5,596**

2008 — Company	On demand HK$'000	Over one year HK$'000	Total HK$'000
Due to subsidiaries	—	51,571	51,571
Other loans	3,564	—	3,564
	3,564	51,571	55,135

(e) Capital risk 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 2009 and 31 December 2008.

Notes to the Financial Statements

31 December 2009

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

(e) Capital risk management *(continued)*

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	
	2009	2008
	HK$'000	HK$'000
Interest-bearing bank loans	**22,760**	24,671
Other loans	**24,922**	3,996
Trade and bills payables	**161,051**	321,958
Other payables, accrued expenses and deposits received	**20,958**	31,585
Less: Cash and cash equivalents	**(4,943)**	(42,853)
Net debt	**224,748**	339,357
Equity attributable to owners of the Company	**(71,505)**	4,133
Capital and net debt	**153,243**	343,490
Gearing ratio	**147%**	99%

41. COMPARATIVE FIGURES

In the consolidated and company statement of financial position, other loans were included under other payables, accrued expenses and deposits received in 2008 financial statements have been reclassified to other loans in order to achieve a consistent presentation.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 April 2010.

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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**167,518**	519,883	1,065,938	1,173,795	1,066,240
(LOSS)/PROFIT BEFORE INCOME TAX EXPENSE	**(88,681)**	(110,135)	(101,904)	11,177	19,404
Income tax credit/(expense)	**474**	(3,130)	(13,460)	(2,750)	(4,475)
(LOSS)/PROFIT FOR THE YEAR	**(88,207)**	(113,265)	(115,364)	8,427	14,929
Attributable to:					
Equity holders of the parent	**(88,564)**	(112,483)	(115,094)	8,639	15,216
Minority interests	**357**	(782)	(270)	(212)	(287)
	(88,207)	(113,265)	(115,364)	8,427	14,929

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**164,598**	390,545	741,918	944,132	933,383
TOTAL LIABILITIES	**(234,726)**	(385,396)	(640,416)	(731,739)	(732,049)
MINORITY INTERESTS	**(1,377)**	(1,016)	(1,719)	(1,296)	—
NET (LIABILITIES)/ASSETS	**(71,505)**	4,133	99,783	211,097	201,334