



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)



06

interim report



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The directors (the "Directors") of Mitsumaru East Kit (Holdings) Limited (the "Company") are pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2006 (the "Period") together with the comparative figures for the corresponding period of 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2006

	Notes	Unaudited	
		Six months ended 30th June	
		2006	2005
		HK\$'000	HK\$'000
			(Restated)
REVENUE	4	545,019	363,002
Cost of sales		(490,966)	(323,552)
GROSS PROFIT		54,053	39,450
Other income	4	8,795	786
Selling and distribution expenses		(8,091)	(4,102)
Administrative expenses		(27,607)	(20,478)
Other operating expenses		(4,267)	(1,423)
Finance costs	5	(4,552)	(4,831)
PROFIT BEFORE TAX	6	18,331	9,402
Tax	7	(4,706)	(3,630)
PROFIT FOR THE PERIOD		13,625	5,772
ATTRIBUTABLE TO:			
Equity holder of the parent		13,625	5,592
Minority interests		—	180
		13,625	5,772
EARNINGS PER SHARE ATTRIBUTABLE TO			
ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		HK3.41 cents	HK1.40 cents
Diluted		N/A	N/A
DIVIDEND PER SHARE	9	Nil	Nil



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2006

	Notes	Unaudited 30th June 2006 HK\$'000	Audited 31st December 2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	92,130	92,012
Prepaid premium on land lease		11,374	10,897
Interests in an associated company	11	29,983	—
Other asset		4,437	4,437
Deposit paid for acquisition of an equity investment		—	15,361
Deposit paid for acquisition of property, plant and equipment		11,337	17,551
Deferred tax assets		18,460	20,820
Restricted time deposits		7,528	11,650
Total non-current assets		<u>175,249</u>	<u>172,728</u>
CURRENT ASSETS			
Inventories		145,528	124,810
Trade receivables	12	369,567	412,760
Notes receivable		11,658	9,215
Prepayments, deposits and other receivables		49,913	64,725
Equity investments at fair value through profit or loss		453	441
Tax recoverable		—	934
Pledged deposits		40,697	11,415
Cash and cash equivalents		84,893	136,355
Total current assets		<u>702,709</u>	<u>760,655</u>
CURRENT LIABILITIES			
Trade and bills payables	13	480,190	559,155
Other payables, accrued expenses and deposits received		53,112	54,279
Interest-bearing bank loans		124,819	116,899
Tax payable		45	1,154
Total current liabilities		<u>658,166</u>	<u>731,487</u>
NET CURRENT ASSETS		<u>44,543</u>	<u>29,168</u>

		Unaudited 30th June 2006 HK\$'000	Audited 31st December 2005 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		219,792	201,896
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(567)	(562)
Interest-bearing bank loans		(6,618)	—
		<u>212,607</u>	<u>201,334</u>
Net assets		<u>212,607</u>	<u>201,334</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	14	40,000	40,000
Reserves	16	172,607	156,834
Proposed final dividend		—	4,500
		<u>212,607</u>	<u>201,334</u>
Minority interests		—	—
Total equity		<u>212,607</u>	<u>201,334</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

	Attributable to equity holders of the parent											
	Issued capital	Share premium account	Pre-IPO share option reserve	Contributed surplus	Statutory surplus reserve	Expansion reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005												
As previously reported (audited)	40,000	52,557	—	4,990	23,851	701	320	58,163	3,000	183,582	270	183,852
Prior year adjustment (audited)	—	—	1,455	—	—	—	—	(1,455)	—	—	—	—
As restated (audited)	40,000	52,557	1,455	4,990	23,851	701	320	56,708	3,000	183,582	270	183,852
Exchange realignment and total income and expenses recognised directly in equity (unaudited)	—	—	—	—	—	—	(96)	—	—	(96)	(54)	(150)
Net profit for the year as restated (unaudited)	—	—	—	—	—	—	—	5,592	—	5,592	180	5,772
Total income and expense for the year (unaudited)	—	—	—	—	—	—	(96)	5,592	—	5,496	126	5,622
Final 2004 dividend declared (unaudited)	—	—	—	—	—	—	—	—	(3,000)	(3,000)	—	(3,000)
Equity-settled share option arrangements (unaudited)	—	—	1,387	—	—	—	—	—	—	1,387	—	1,387
Profit appropriation (unaudited)	—	—	—	—	2,921	—	—	(2,921)	—	—	—	—
At 30th June 2005 (unaudited)	<u>40,000</u>	<u>52,557</u>	<u>2,842</u>	<u>4,990</u>	<u>26,772</u>	<u>701</u>	<u>224</u>	<u>59,379</u>	<u>—</u>	<u>187,465</u>	<u>396</u>	<u>187,861</u>
At 1st January 2006 (audited)	40,000	52,557	4,251	4,990	26,790	701	3,060	64,485	4,500	201,334	—	201,334
Exchange realignment and total income and expenses recognised directly in equity (unaudited)	—	—	—	—	—	—	784	—	—	784	—	784
Net profit for the year (unaudited)	—	—	—	—	—	—	—	13,625	—	13,625	—	13,625
Total income and expense for the year (unaudited)	—	—	—	—	—	—	784	13,625	—	14,409	—	14,409
Final 2005 dividend declared (unaudited)	—	—	—	—	—	—	—	—	(4,500)	(4,500)	—	(4,500)
Equity-settled share option arrangements (unaudited)	—	—	1,364	—	—	—	—	—	—	1,364	—	1,364
Profit appropriation (unaudited)	—	—	—	—	894	—	—	(894)	—	—	—	—
At 30th June 2006 (unaudited)	<u>40,000</u>	<u>52,557</u>	<u>5,615</u>	<u>4,990</u>	<u>27,684</u>	<u>701</u>	<u>3,844</u>	<u>77,216</u>	<u>—</u>	<u>212,607</u>	<u>—</u>	<u>212,607</u>

* These reserve accounts as at 30th June 2006 comprise the consolidated reserves of HK\$172,607,000 (30th June 2005: HK\$147,465,000) in the condensed consolidated balance sheet. All the reserves are retained by the Company and its subsidiaries as at 30th June 2006 and 2005, respectively.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th June 2006*

	Unaudited	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(31,185)	(25,083)
Net cash outflow from investing activities	(1,692)	(21,814)
Net cash inflow/(outflow) from financing activities	(19,244)	28,452
Decrease in cash and cash equivalents	(52,121)	(18,445)
Effect of foreign exchange rate changes, net	659	(150)
Cash and cash equivalents at beginning of the period	136,355	53,343
Cash and cash equivalents at end of the period	<u>84,893</u>	<u>34,748</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	63,537	30,224
Non-pledged time deposits with original maturity of less than three months when acquired	<u>21,356</u>	<u>4,524</u>
	<u>84,893</u>	<u>34,748</u>



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period ended 30th June 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2. Significant Accounting Policies

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the period ended 31st December 2005, except for the adoption of the following amendments and interpretations mandatory for accounting periods beginning on or after 1st January 2006:

HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HK (IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease

The HKAS 39 Amendments regarding cash flow hedge accounting of forecast intragroup transactions and the fair value option do not apply to the activities of the Group.

In accordance with the HKAS 39 and HKFRS 4 Amendments, financial guarantee contracts are initially recognized at fair value and are subsequently measured at the higher of (i) the amount determined in the accordance with HKAS 37 and (ii) the amount initially recognized, less, (when appropriate), cumulative amortization recognized in accordance with HKAS 18. The adoption of this new accounting standard does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

HK(IFRIC)-Int 4 regarding the determination of whether an arrangement contains a lease based on the substance of the arrangement, its adoption does not have a material effect on the Group's accounting policies and on amounts disclosed in the unaudited condensed consolidated interim financial statements.

3. Segment Information

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

(i) Business segments

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

(ii) Geographical segments

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue and certain assets and capital expenditure information for the Group's geographical segments.

	Unaudited	
	Segment revenue	
	Sales to external customers	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Mainland China	252,247	180,675
Europe	117,223	83,547
Asia (other than Mainland China)	125,349	59,106
South America	47,712	38,806
Australia	1,793	23
Others	695	845
	<u>545,019</u>	<u>363,002</u>



3. Segment Information (Continued)

(ii) Geographical segments (Continued)

(ii)

	Unaudited	
	Segment assets	
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Hong Kong	265,800	330,344
Mainland China	598,363	583,768
Europe	13,795	19,271
	<u>877,958</u>	<u>933,383</u>

(iii)

	Unaudited	
	Segment capital expenditure	
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Hong Kong	318	24,397
Mainland China	4,921	27,820
Europe	—	5
	<u>5,239</u>	<u>52,222</u>

4. Revenue and other income

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

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

	Unaudited	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Revenue		
Sale of goods	545,019	363,002
Other income		
Bank interest income	1,510	393
Subsidy income	—	167
Investment income	5,756	—
Sundry income	1,529	226
	8,795	786

5. Finance costs

	Unaudited	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank and other loans wholly repayable within five years	4,544	4,812
Interest on finance lease payables	8	19
	4,552	4,831



6. Profit before tax

The Group's profit before tax is arrived at after charging:

	Unaudited	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
		<i>(restated)</i>
Cost of inventories sold	469,844	309,547
Depreciation	4,554	2,751
Amortization of prepaid land premiums	170	277
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	18,345	14,992
Equity-settled share option expenses	1,364	1,387
Pension scheme contributions	1,131	58
	20,840	16,437
Minimum lease payments under operating leases in respect of land and buildings	479	435
Provision against slow-moving inventories	1,942	943
Research and development costs	1,107	1,570
Foreign exchange difference, net	1,327	440

7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The tax concession granted to East Kit Electronic (China) Co., Ltd. ("East Kit (China)") expired prior to 1st January 2001. Upon obtaining an approval for additional concession with effect on 1st January 2002, East Kit (China) was granted a 50% exemption from the national portion and a full exemption from the local portion of CIT for three years as it qualified as a "hi-tech company" pursuant to the tax regulations in Mainland China. The CIT rate applied to East Kit (China) for the Period was 24% (2005: 24%).

7. Tax (Continued)

The tax concession granted to East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)") expired prior to 1st January 2005. Upon obtaining an approval for additional concession with effect on 1st January 2006, East Kit (Shanghai) was granted a partial exemption from the national and local portion of CIT for the three years as it qualified as an "Advanced Technology company" pursuant to the tax regulation in Mainland China. The CIT rate applied to East Kit (Shanghai) for the Period was 13.5% (2005: 27%).

For the year ended 31st December 2004, Mitsumaru Electronic (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)") reported its first year's profit since its establishment and hence, the tax concession granted to Mitsumaru (Wuhu) commenced on 1st January 2004. The CIT rate applied to Mitsumaru (Wuhu) for the Period was 12% (2005: Nil).

	Unaudited	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	736	—
Mainland China	1,437	4,038
	2,173	4,038
Overprovision in prior year	—	(408)
Deferred	2,533	—
Total tax charge for the Period	4,706	3,630

8. Earnings per share

The calculation of basic earnings per share for the Period is based on the profit attributable to ordinary equity holders of the parent for the Period of approximately HK\$13,625,000 (30th June 2005: HK\$5,592,000 (restated)) and the 400,000,000 ordinary shares (30th June 2005: 400,000,000 ordinary shares) in issue during the Period.

The diluted earnings per share for the six months ended 30th June 2006 and 2005 have not been disclosed as the outstanding option during these periods have an anti-dilutive effect on the basic earnings per share.

9. Dividends

The board of directors has resolved not to declare any interim dividend for the six months ended 30th June 2006 (30th June 2005: Nil).

10. Property, plant and equipment

During the Period, approximately HK\$4.67 million (2005: HK\$13.6 million) was spent on acquisition of property, plant and equipment. Approximately HK\$0.49 million (2005: HK\$10.3 million) was spent on the construction and decoration of the office building, R&D center and warehouse in Shanghai and HK\$4.1 million (2005: HK\$3.3 million) was spent for the production machineries for the factories located in Shanghai and Wuhu City, Anhui Province, the PRC.



11. Interests in an associated company

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	25,887	—
Goodwill	4,096	—
	29,983	—

On 13th December 2005, the Group entered into an equity transfer agreement with Westlake Electronics Group Co., Ltd. for 38.5% equity interest in Cyber Opto-Electrical Technology Co., Ltd. for a consideration of RMB30,800,000. The acquisition procedures were completed on 29th April 2006.

12. Trade receivables

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 90 days, extending up to six months for major customers. Each customer has 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Within 90 days	244,837	330,986
91 days to 180 days	73,866	24,057
181 days to one year	9,343	40,425
Over one year	41,521*	17,292*
	369,567	412,760

* As at 30th June 2006 and 31st December 2005, parts of the outstanding amount was secured by assets provided by customers of the Group.

13. Trade and bills payables

The ageing analysis of trade and bills payables at the respective balance sheet dates, based on the invoices date, is as follows:

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Within 180 days	409,241	519,854
181 days to one year	51,310	24,424
One year to two years	10,994	5,455
Over two years	8,645	9,422
	480,190	559,155

14. Share capital

	Unaudited	Audited
	As at	As at
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 (31st December 2005: 1,000,000,000) ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid:		
400,000,000 (31st December 2005: 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 15 to the unaudited condensed consolidated interim financial statements.



15. Share option schemes

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 22nd 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 incentive and/or reward to any directors, consultant, advisor person including full-time and part-time employees of the Company and its subsidiaries, at the sole discretion of the board, for their contribution to, and continuing efforts to promote the interests of the Company. The schemes become effective on 22nd 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, upon their exercise, to 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 advance 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.

As at 30th June 2006 and up to the date of approval of these unaudited condensed consolidated interim financial statements, no share options have been granted under the Scheme.

At the date of approval of these unaudited condensed consolidated interim financial statements, the total number of shares available for issue under the Scheme is 40,000,000 shares representing 10% of the total issued share capital of the Company on that date.

15. Share option schemes *(Continued)*

The Pre-IPO Scheme

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

- (i) The subscription price per share shall be the price of each share issued under the public offering, that is, HK\$1.068 per share;
- (ii) The maximum number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme shall be 35,000,000 shares; and
- (iii) Save for the options which have been granted but have not lapsed, been 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.

As at the date of approval of these unaudited condensed consolidated interim financial statements, the total number of shares available for issue under the Pre-IPO Scheme is 35,000,000 shares representing 8.75% of the total existing issued share capital of the Company on that date.

At 30th June 2006, 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 on 25th June 2004 to a total of 91 employees of the Company at a consideration of HK\$1.00 per option under the Pre-IPO Scheme.



15. Share option schemes (Continued)

The Pre-IPO Scheme (Continued)

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

Name or category of participant	At 1st January 2006	Exercised during the period	Cancelled/ lapsed during the period	At 30th June 2006	Date of grant of options	Exercisable period*	Exercise price of options HK\$
Directors							
Zhang Shuyang	2,300,000	—	—	2,300,000	25th June 2004	25th June 2004-24th June 2014	1.068
Tung Chi Wai, Terrence	1,950,000	—	—	1,950,000	25th June 2004	25th June 2004-24th June 2014	1.068
Kazunori Watanabe	1,600,000	—	—	1,600,000	25th June 2004	25th June 2004-24th June 2014	1.068
	<u>5,850,000</u>	<u>—</u>	<u>—</u>	<u>5,850,000</u>			
Other employees							
In aggregate	28,470,000	—	(3,120,000)	25,350,000	25th June 2004	25th June 2004-24th June 2014	1.068
	<u>34,320,000</u>	<u>—</u>	<u>(3,120,000)</u>	<u>31,200,000</u>			

* Each option has a 10-year exercise period commencing from 25th June 2004 to 24th 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% respectively of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

16. Reserves

The amounts of the Group's reserves and the movements therein for the current and the prior period are presented in the condensed consolidated statement of changes in equity on page 5 of the unaudited condensed consolidated interim 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 on 15th July 2004 to the unaudited consolidated interim financial statements, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the relevant regulation in Mainland China, the subsidiaries operating in Mainland China are required to transfer 10% of their profits after tax, as determined under the accounting regulations in Mainland China, 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 subject to certain restrictions set out in the relevant regulations in Mainland China. 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 above mentioned usages.

During the Period, the 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.

17. Contingent liabilities

LITIGATION

On 28th July 2004, the Company announced that East Kit Industries Limited and East Kit Electronic Manufacturing Co. Ltd. (collectively known as the "Plaintiffs") had commenced legal proceedings ("the Legal Proceedings") alleging that the Company had, among other things, passed off its business as being connected with that of the Plaintiffs, and an interim injunction (the "Interim Injunction") was granted by the Court against the Company on 23rd July 2004, which restrained the Company from using the words "East Kit" and the characters "東傑" as part of its name in Hong Kong.

The Interim Injunction imposed on the Company was discharged on 5th November 2004. The Company is no longer subject to any restrictions in using the words "東傑" or words confusing similar as part of its English company name or characters "東傑" as part of its Chinese company name in Hong Kong.

The Legal Proceedings have been settled on terms whereby the Company makes no admission of liability in relation to the subject matter of such proceedings and each party bears its own legal costs and expenses. The Company will retain its formal corporate title "Mitsumaru East Kit (Holdings) Limited" (in English) and "三丸東傑(控股)有限公司" (in Chinese) but has agreed that henceforth it will adopt a business/brand name "MEK" (in English) and "三丸東傑" (in Chinese). The Directors believe that the terms of the settlement will not have a material impact upon the business of the Company and its subsidiaries.



18. Operating lease arrangements

The Group leases its office properties under operating lease arrangements which are negotiated for terms of one to two years. At the respective balance sheet dates, the Group has total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Unaudited	Audited
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Within one year	781	555
In the second to fifth years, inclusive	219	1,991
After five years	—	2,043
	1,000	4,589

19. Commitments

	Unaudited	Audited
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Contracted, but not provided for the acquisition of plant & machinery:	—	6,149
Authorised, but not contracted for the acquisition of plant and machinery	2,343	—
Contracted, but not provided for the acquisition of an equity investment	—	14,254
	2,343	20,403

20. Related party transaction

The Group had no significant related party transaction during the Period.

21. Ultimate holding company

In the opinion of the Directors, the ultimate holding company of the Company is Z-Idea, a company incorporated in the British Virgin Islands with limited liability.

22. Comparative figures

Certain comparative amounts have been restated to conform with the current period's presentation.

23. Approval of interim financial report

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 25th September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall Financial Result

For the Period, the Group consistently recorded significant growth in turnover of approximately 50.1% and reached the amount of HK\$545 million comparing with HK\$363 million in the corresponding period of 2005. The gross profit increased from HK\$39.5 million of the same period of last year to HK\$54.1 million during the Period while overall gross profit ratio dropped from 10.9% to 9.9%. The net profit attributable to equity holders of the parent company increased by 144% from HK\$5.6 million of the same period of last year to HK\$13.6 million in 2006. Earnings per share increased to HK3.41 cents from HK1.40 cents (restated) achieved of the same period of last year.

Turnover

The significant growth in turnover during the Period mainly due to the strong demand of the original markets for the CRT TV chassis. Good performance have been obtained in the countries of the original markets like India and Russia (included in the business segment of Asia (other than Mainland China)) which recorded a growth rate of approximately 112% comparing with the similar period of last year. Meanwhile, the markets in Mainland China and Europe also show consistent growth under aggressive marketing strategies of the Group. Since the kicking off the sales of LCD chassis upon the maturity of our LCD technologies in 2005, the business of LCD products grows consistently. During the period, LCD sales represents approximately 10% (2005: 5%) of the HK\$545 million total sales of the Group, which represents a success of our LCD products in the European and other markets.

Gross Profit

The gross profit ratio decreased to 9.9% from 10.9% of the same period of last year due to general price pressure in home appliance electronics market. However, the Group has successfully offset most of the aforesaid impact by obtaining better purchase costs with our increased sales scale and with the great support of our suppliers globally. As a result, overall gross profit ratio dropped by 1% only while gross profit increased by 37% in absolute amount and reached HK\$54.1 million.

In the coming years, the Group expects to maintain a growth of CRT business with a relatively stable gross profit ratio and expand the LCD business. The Group has aggressively captured more and more market shares in the traditional CRT TV products area in various countries over the world and we are also going into the new markets in South America and Europe in the foreseeable future. Under the strong expansion of the Group's global CRT business, the Group can maintain strong negotiation power and good purchase terms with vendors. Upon the competitive advantages obtain in terms of cost efficiency and sourcing power of electronic components, the Group provides our LCD products at very competitive prices which on average have higher gross profit ratio than traditional CRT products. With the increasing of LCD products in the sales mix, the overall gross profit margin of the Group is expected to be enhanced in the future.



Acquisition of an associated company

On 13th December 2005, the Group entered into an equity transfer agreement with Westlake Electronics Group Co., Ltd. for the acquisition of 38.5% equity interest in Cyber Opto-Electrical Technology Co., Ltd. for a consideration of RMB30,800,000. Further details of this transaction were set out in the Company's announcement dated 15th December 2005.

Approved from the relevant PRC governmental authorities was obtained and the transaction was completed on 29th April 2006.

Financial position and liquidity

	30th June	31st December
	2006	2005
Current ratio	1.07	1.04
Quick ratio	0.85	0.87
Gearing ratio	15.0%	12.5%

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

As of 30th June 2006, the Group's total cash and bank balance was approximately HK\$84.9 million (31st December 2005: HK\$136.4 million). The drop in cash and bank balance was mainly due to the Group improved the repayment condition to our vendors to get better terms of purchase. The current ratio and quick ratio remained stable during the Period at 1.07 and 0.85 respectively as at 30th June 2006 (31st December 2005: 1.04 and 0.87).

The bank borrowings were HK\$131.4 million as of 30th June 2006, compared to HK\$116.9 million of 31st December 2005, to finance the working capital of the Group as gearing ratio increased to 15.0% as of 30th June 2006 compared with 12.5% on 31st December 2005.

The Group conducts its core business transaction mainly in RMB and US dollar currencies. The majority of its cash and bank balances are either in RMB or USD dollar currencies. During the six months ended 30th June 2006 and 2005, respectively, the Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure was insignificant.

Capital expenditures

Capital expenditures for the six months ended 30th June 2006 were approximately HK\$5.2 million (six months ended 30th June 2005: HK\$21.9 million) the majority of which was spent for the production machineries for the factories located in Shanghai and Wuhu City, Anhui Province, the PRC.

BUSINESS REVIEW

During the Period, the Group kept to its strategic "No Brand Solution" approach, and took advantage of our capabilities of technology development, which enabled us to closely follow the ever changing market and different needs of customers, to lead a diversified development.

For the six months ended 30th June 2006, sales of CTV chassis were our major income source. The total sales in China were HK\$252.2 million, representing an increase of 39.6% when compared with HK\$180.7 million for the same period in 2005. The sales in China accounted for 46.3% (six months ended 30th June 2005 : 49.8%) of the Group's total sales income.

For overseas market, during the Period, our LCD products successfully entered into the Western Europe, Russia, Thailand and Mexico markets. For the six months ended 30th June 2006, the Group's total sales in overseas markets amounted to HK\$292.8 million, representing an increase of 60.6% when compared with HK\$182.3 million for the same period in 2005. Overseas sales accounted for 53.7% (six months ended 30th June 2005 : 50.2%) of the Group's total sales income.

Market Development

The global CTV market maintained its momentum and the demand remains strong. LCD TV has become one of the main products of flat TV. As the price of LCD panel continuously decreases and the CTV producers have shifted their business focus to LCD TV products, after the exponential growth in 2005, LCD TV market generally grew at a relatively stable yet rapid pace in 2006.

The LCD TV market in China was emerging and grew quickly. In 2005, the output of LCD TV in China almost reached 9 million sets, accounting for 40% of the global market. It is expected that the global output of LCD TVs range from 43 million to 45 million sets in 2006. Based on the same proportion of 2005, the output of LCD TVs in the PRC will exceed 16 million sets. The market is very promising. (Source: China Electronics News)

On the other hand, due to the low cost of traditional CRT TVs, they are very popular in developing and under-developed countries, and it maintain a certain market share.

CRT Products

Our CRT products are available in different sizes of 14", 15", 20", 21", 25", 28" (16:9), 29", 32" (16:9) and 34". We provide different chassis, including analogue TV chassis, chassis for digital broadcasting in the US and 100Hz progressive scan chassis. We are highly flexible and are able to provide different products with specific functions that are suitable for the needs of different countries and regions.

LCD Products

Our LCD products can be categorized by the panel size. Small-sized LCD products are of the sizes of 15"(4:3), 17"(5:4), 19"(5:4), 19"(16:10), 20"(4:3) and 20"(16:9); and large-sized LCD products are of the sizes of 26"(16:9), 32"(16:9), 37"(16:9) and 42"(16:9).

Our panel solutions are also available in various features which offer higher flexibility for sales in different markets around the world.



Digital Products

1. DVBT Demodulator (chassis): PHILIPS PNX8314 solution, finished design, target for Euro market.
2. ATSC Demodulator (chassis): ZORAN ZR39660 solution and ATSC Demodulator (Module): ZORAN ZR39640 solution, finished designs, target for North American market.
3. ATSC Demodulator (chassis): PHILIPS TV520 solution, design will be finished by the end of this year, target for North American market.

Other Products

The Group's Touch Panel product has been exported to the US. Open frame is available other than traditional desktop touch panel.

Outlook

Looking forward, it is expected that CTV market will develop stably. CRT TV will be replaced by LCD TV and analogue TV will be replaced by digital TV. The diverse development of CTV market will trigger adjustment of the industry. Therefore, the Group will hold on to its "No Brand Solution" strategy to maintain its business flexibility and expand its market share. Currently, as the technology of CRT is well developed and its sales volume is relatively larger, while the gross profit margin for LCD products is higher, the Group will properly allocate its resources to CRT and LCD products and maintain development in both categories.

In 2005, LCD TV has faced a rapid growth with large development room. Together with the new application, the LCD TV market expanded drastically. The demand for LCD TVs are on an upward trend and the screen is developing into bigger size, while decrease of sales price is slower, in particular, the decrease of sales price of LCD TV with 32" or smaller panel is limited, it is believed to be favourable for the market demand growth.

The Group will maintain the existing business, and also, expand the market in China and overseas proactively. For the market in China, the Group will form partnership with CTV manufacturing enterprises to enhance our competitive strength; for the overseas market, we will strengthen the customer base of the newly developed Spanish, Russian, Mexican and Thai markets and expand into new markets as well. Moreover, we are expanding into the hotel business in South-east Asia and the market in Japan as well. In July, a subsidiary in Tokyo, Japan was established in order to enhance market expansion, overseas sales and after-sales services, which lead the development of the Group to a new milestone, expecting to maximise market opportunities and profitability and achieving our ultimate goals of raising the interests of shareholders.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As of 30th June 2006, so far as the Directors are aware, the following persons (who are not Directors) have interest or short position in the shares and underlying shares of the Company which would be required 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 10% or more of the nominal value of any class of share capital carrying voting rights to in all circumstances at general meetings of any of other members of the Group:

Name of substantial shareholders	Class of shares	Number of shares held	Percentage of shareholding in the total issued share capital
Z-Idea Company Limited (Note 1)	Ordinary shares	249,000,000 (L)	62.25%
Mr. Zhang Shuyang (Note 2)	Ordinary shares	249,000,000 (L)	62.25%
Good Day International Limited (Note 3)	Ordinary shares	45,000,000 (L)	11.25%
Ms. Wu Lixia (Note 4)	Ordinary shares	45,000,000 (L)	11.25%
數源科技股份有限公司	Ordinary shares	36,088,000 (L)	9.02%

Notes:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, an executive Director of the Company.
2. The interest in 249,000,000 shares are deemed corporate interest through Z-Idea Company Limited.
3. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng, the minority son of Mr. Zhang Shuyang, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.
4. The interest in 45,000,000 shares are deemed corporate interest through Good Day International Limited.
5. The letter "L" denotes a long position.

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 six months ended 30th June 2006.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30th June 2006, the interests and short positions of the Directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Capacity	Number of shares held through corporation	Percentage of the Company's issued capital
Mr. Zhang Shuyang (Note (a))	Beneficial owner	249,000,000	62.25%
Mr. Tung Chi Wai, Terrence (Note (b))	Beneficial owner	6,000,000	1.50%

The interests of the Directors in the share options of the Company are separately disclosed in note 15 to the financial statements.

Notes:

- (a) The interest in 249,000,000 shares are deemed corporate interest through Z-Idea Company Limited which is wholly owned by Mr. Zhang Shuyang.
- (b) The interest in 6,000,000 shares are deemed corporate interest through T-Square Company Limited which is wholly owned by Mr. Tung Chi Wai, Terrence.

Long positions in shares and underlying shares of an associated corporation (within the meaning of Part XV of the SFO):

Name of director	Name of associated corporation	Nature of interest	Number of shares directly and indirectly held in associated corporation	Percentage of the associated corporation's issued share capital
Mr. Zhang Shuyang	Z-Idea Company Limited	Corporate	38,000,000	100%

Save as disclosed above, as of 30th June 2006, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquires have been made to all Directors, who have confirmed that they complied with required standard set out in the Model Code.

COMPLIANCE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 of the Listing Rules which remained effective as at 30th June 2006, except for the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not maintain the position of chief executive officer. However, the chairman of the Company, Mr. Zhang Shuyang, is responsible for the day-to-day management of the Group. The Company considers that the combination of the roles is more efficient in planning and execution of the Group's long-term strategies and policies. The Company considers that through the supervision of the Board and its independent non-executive Directors, the interests of the shareholders as a whole are adequately and fairly represented.

AUDIT COMMITTEE

The Company has an audit committee, which was established on 22nd June 2004 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 of Directors. The audit committee comprises the three independent non-executive directors of the Company.

The audit committee of the Company has reviewed the interim results of the Group for the six months ended 30th June 2006.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The Company will submit to the Stock Exchange and publish on the website of the Stock Exchange the information required to be disclosed under paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 of the Listing Rules in due course.

BOARD OF DIRECTORS

As at the date of this report, the executive Directors are Mr. Zhang Shuyang, Mr. Tung Chi Wai, Terrence and Mr. Kazunori Watanabe and the independent non-executive Directors are Mr. Ede Hao Xi, Ronald, Mr. Ts'o Shun, Roy and Mr. Li Yueh Chen.

On Behalf of the Board

Mitsumaru East Kit (Holdings) Limited

Zhang Shuyang

Chairman

Hong Kong, 25th September, 2006



CORPORATE INFORMATION

REGISTERED OFFICE

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Grand Cayman
British West Indies

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Certified Public Accountants
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Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Kwai Chung
New Territories
Hong Kong

AUDIT COMMITTEE

Mr. Ede Hao Xi, Ronald
Mr. Ts'o Shun, Roy
Mr. Li Yueh Chen

COMPANY SECRETARY

Mr. Pun Wai, *ACCA, AHKSA*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
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Cayman Islands
British West Indies

QUALIFIED ACCOUNTANT

Mr. Pun Wai, *ACCA, AHKSA*

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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46th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Kazunori Watanabe
Mr. Tung Chi Wai, Terrence

AUTHORISED REPRESENTATIVES

(to accept service of process and notices under
Part XI of the Companies Ordinance)
Mr. Tung Chi Wai, Terrence
Mr. Pun Wai

PRINCIPAL BANKERS

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INVESTOR AND MEDIA RELATIONS CONSULTANT

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WEBSITE

<http://www.mitsumaru-ek.com>

SHARE INFORMATION

Place of listing : Main Board of the Stock Exchange of
Hong Kong Limited
Listing Date : 15th July 2004
Nominal value : HK\$0.10 per share
Stock Code : 2358
Number of : 400,000,000
shares in issue :
Stock short name : Mitsumaru East Kit