



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)

2007 INTERIM RESULTS ANNOUNCEMENT

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 30 June 2007 (the “Period”) together with the comparative figures for the corresponding period of 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Unaudited	
		Six months ended 30 June	
	Notes	2007	2006
		HK\$'000	HK\$'000
REVENUE	4	535,624	545,019
Cost of sales		<u>(500,873)</u>	<u>(490,966)</u>
GROSS PROFIT		34,751	54,053
Other income	4	2,358	8,795
Selling and distribution expenses		(9,294)	(8,091)
Administrative expenses		(30,346)	(27,607)
Impairment of trade receivables	12	(35,463)	—
Other operating expenses		(5,186)	(4,267)
Share of loss of an associate		(1,202)	—
Finance costs	5	<u>(5,256)</u>	<u>(4,552)</u>
PROFIT/(LOSS) BEFORE TAX	6	(49,638)	18,331
Tax	7	<u>(6)</u>	<u>(4,706)</u>
PROFIT/(LOSS) FOR THE PERIOD		(49,644)	13,625
ATTRIBUTABLE TO:			
Equity holder of the parent		(49,180)	13,625
Minority interests		<u>(464)</u>	—
		(49,644)	13,625
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	8		
Basic		<u>(HK12.30 cents)</u>	<u>HK3.41 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>
DIVIDEND PER SHARE	9	<u>NIL</u>	<u>NIL</u>

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 June 2007*

		Unaudited	Audited
		30 June	31 December
	<i>Notes</i>	2007	2006
		HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	126,238	127,921
Investment properties		7,565	7,759
Prepaid land premiums		11,206	11,034
Other asset		4,437	4,437
Golf club membership		360	360
Interest in an associate	11	27,821	28,354
Deposit paid for acquisition of property, plant and equipment		7,286	3,580
Deferred tax assets		15,539	15,037
Restricted time deposits		7,740	7,649
		<hr/>	<hr/>
Total non-current assets		208,192	206,131
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		129,178	144,611
Trade receivables	12	368,131	386,479
Notes receivable		4,576	—
Prepayments, deposits and other receivables		41,751	58,145
Equity investments at fair value through profit or loss		25,608	623
Tax recoverable		724	—
Pledged deposits		61,860	67,163
Cash and cash equivalents		59,265	80,980
		<hr/>	<hr/>
Total current assets		691,093	738,001
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	13	526,093	538,886
Other payables, accrued expenses and deposits received		48,822	46,712
Interest-bearing bank loans		139,071	122,384
Tax payable		—	1,851
Finance lease payables		624	605
		<hr/>	<hr/>
Total current liabilities		714,610	710,438
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		(23,517)	27,563
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		184,675	233,694

		Unaudited	Audited
		30 June	31 December
	<i>Notes</i>	2007	2006
		HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Finance lease payables		(941)	(1,260)
Interest-bearing bank loans		(17,842)	(19,526)
Deferred tax liabilities		(532)	(515)
		<u>(19,315)</u>	<u>(21,301)</u>
Total non-current liabilities		<u>(19,315)</u>	<u>(21,301)</u>
Net assets		<u>165,360</u>	<u>212,393</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	14	40,000	40,000
Reserves	16	124,528	171,097
		<u>164,528</u>	211,097
Minority interests		<u>832</u>	<u>1,296</u>
Total equity		<u>165,360</u>	<u>212,393</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

Attributable to equity holders of the parent

	Pre-IPO			Contributed surplus	Statutory surplus reserve	Expansion reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Issued capital	Share premium account	share option reserve									
	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 1 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
Profit for the period (unaudited)	—	—	—	—	—	—	—	13,625	—	13,625	—	13,625
Total income and expense for the period (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 30 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>
At 1 January 2007 (audited)	40,000	52,557	5,586	4,990	27,691	701	6,599	72,973	—	211,097	1,296	212,393
Exchange realignment and total income and expenses recognised directly in equity (unaudited)	—	—	—	—	—	—	1,916	—	—	1,916	—	1,916
Loss for the period (unaudited)	—	—	—	—	—	—	—	(49,180)	—	(49,180)	(464)	(49,644)
Total income and expense for the period (unaudited)	—	—	—	—	—	—	1,916	(49,180)	—	(47,264)	(464)	(47,728)
Equity-settled share option arrangements (unaudited)	—	—	695	—	—	—	—	—	—	695	—	695
Profit appropriation (unaudited)	—	—	—	—	418	—	—	(418)	—	—	—	—
At 30 June 2007 (unaudited)	<u>40,000</u>	<u>52,557</u>	<u>6,281</u>	<u>4,990</u>	<u>28,109</u>	<u>701</u>	<u>8,515</u>	<u>23,375</u>	<u>—</u>	<u>164,528</u>	<u>832</u>	<u>165,360</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(13,196)	(31,185)
Net cash outflow from investing activities	(30,740)	(1,692)
Net cash inflow/(outflow) from financing activities	<u>20,030</u>	<u>(19,244)</u>
Decrease in cash and cash equivalents	(23,906)	(52,121)
Effect of foreign exchange rate changes, net	2,191	659
Cash and cash equivalents at beginning of the period	<u>80,980</u>	<u>136,355</u>
Cash and cash equivalents at end of the period	<u><u>59,265</u></u>	<u><u>84,893</u></u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	59,265	63,537
Non-pledged time deposits with original maturity of less than three months when acquired	<u>—</u>	<u>21,356</u>
	<u><u>59,265</u></u>	<u><u>84,893</u></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 Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited. 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. These financial statements are unaudited but have been reviewed by the Company’s audit committee.

2. SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and accounting policies adopted in preparing these condensed financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2006 except for the adoption of the following amendment mandatory for periods beginning on or after 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The Group has assessed the impact of the adoption of the above new and revised HKFRSs and concluded that there was no significant impact on the Group’s results and financial position.

The Group has not early applied the following new and revised HKFRSs relevant to the Group’s financial statements, that have been issued but not yet effective in the period covered by these interim financial statements:

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 – Group Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group’s financial statements in the period of initial application.

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.

(i)	Unaudited Segment revenue Sales to external customers Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Mainland China	241,324	252,247
Asia (other than Mainland China)	118,765	125,349
South America	86,678	47,712
Europe	85,375	117,223
Australia	1,232	1,793
Others	2,250	695
	<u>535,624</u>	<u>545,019</u>

(ii)	Unaudited	
	Segment assets	
	30 June	31 December
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	573,506	588,639
Hong Kong	305,406	342,860
Japan	4,457	1,102
Europe	15,916	11,531
	<u>899,285</u>	<u>944,132</u>

(iii)	Unaudited	
	Segment capital expenditure	
	30 June	31 December
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	2,244	14,671
Hong Kong	—	37,803
Japan	—	77
Europe	336	14
	<u>2,580</u>	<u>52,565</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 revenue and other income is as follows:

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Sale of goods	<u>535,624</u>	<u>545,019</u>
Other income		
Bank interest income	1,042	1,510
Investment income	924	5,756
Sundry income	392	1,529
	<u>2,358</u>	<u>8,795</u>

5. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest on bank and other loans wholly repayable within five years	5,194	4,544
Interest on finance lease payables	62	8
	<u>5,256</u>	<u>4,552</u>

6. PROFIT/(LOSS) BEFORE TAX

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

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Cost of inventories sold	482,799	469,844
Depreciation	6,391	4,554
Amortization of prepaid land premiums	167	170
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	21,516	18,345
Equity-settled share option expenses	695	1,364
Pension scheme contributions	1,239	1,131
	<u>23,450</u>	<u>20,840</u>
Minimum lease payments under operating leases in respect of land and buildings	—	479
Provision against slow-moving inventories	1,134	1,942
Research and development costs	1,248	1,107
Foreign exchange difference, net	4,017	1,327

7. TAX

There is no assessable profits arising in Hong Kong during the Period (2006: 17.5%). 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 (Shanghai) Co., Ltd. ("East Kit (Shanghai)") expired prior to 1 January 2005. Upon obtaining an approval for additional concession with effect on 1 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% (2006: 13.5%).

For the year ended 31 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 1 January 2004. The CIT rate applied to Mitsumaru (Wuhu) for the Period was 12% (2006: 12%).

	Unaudited	
	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current year provision:		
Hong Kong	—	736
Mainland China	6	1,437
	6	2,173
Deferred	—	2,533
Total tax charge for the Period	6	4,706

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share for the Period is based on the loss attributable to ordinary equity holders of the parent for the Period of approximately HK\$49,180,000 (30 June 2006: profit of approximately: HK\$13,625,000) and the 400,000,000 ordinary shares (30 June 2006: 400,000,000 ordinary shares) in issue during the Period.

The diluted earnings/(loss) per share for the six months ended 30 June 2007 and 2006 have not been disclosed as the outstanding option during these periods have an anti-dilutive effect on the basic earnings/(loss) per share.

9. DIVIDEND

The board of directors has resolved not to declare any interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the Period, approximately HK\$2.58 million (2006: HK\$4.67 million) was spent on acquisition of property, plant and equipment. Approximately HK\$0.9 million (2006: HK\$0.49 million) was spent on the construction and decoration of the office building, R&D center and warehouse in Shanghai and HK\$1.01 million (2006: HK\$4.1 million) was spent for the production machineries for the factories located in Shanghai and Wuhu City, Anhui Province, the PRC.

11. INTEREST IN AN ASSOCIATE

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Share of net assets	19,341	20,147
Goodwill on acquisition	8,480	8,207
	<u>27,821</u>	<u>28,354</u>

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 120 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 As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Within 90 days	239,906	267,945
91 days to 180 days	86,769	86,915
181 days to one year	40,927	18,649
Over one year	529	12,970
	<u>368,131</u>	<u>386,479</u>

Impairment of Trade Receivables

During the period, the Group has made a provision amounting to HK\$35.5 million for bad and doubtful debts. Among the provision, HK\$34.0 million was made for a customer (the "Debtor") with an amount of approximately HK\$46.8 million (the "Debt") outstanding as at 30 June 2007. To secure with the settlement of the Debt, the Debtor pledged its inventory with book value of approximately HK\$24.9 million and a floating charge on the money receivable from the sales of the inventory for a value of approximately HK\$16 million.

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 As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
Within 180 days	452,390	446,409
181 days to one year	60,834	73,572
One year to two years	3,169	8,451
Over two years	9,700	10,454
	526,093	538,886

14. ISSUED CAPITAL

	Unaudited As at 30 June 2007 <i>HK\$'000</i>	Audited As at 31 December 2006 <i>HK\$'000</i>
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 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 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 incentive and/or reward to any directors, consultant, advisor person including full-time or 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 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, 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 30 June 2007 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.

The Pre-IPO Scheme

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

- (i) The subscription price per share shall be the price of each share issued under the public offering, that is, HK\$1.068 per share;
- (ii) The maximum number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme shall be 35,000,000 shares; and
- (iii) Save for the options which have been granted but have not lapsed, 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 30 June 2007, options to subscribe for 30,030,000 shares at an exercise price of HK\$1.068 were granted by the Company under the Pre-IPO Scheme on 25 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.

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

Name or category of participant	At 1 January 2007	Exercised during the period	Cancelled/lapsed during the period	At 30 June 2007	Date of grant of options	Exercisable period*	Exercise price of options HK\$
Directors							
Zhang Shuyang	2,300,000	—	—	2,300,000	25 June 2004	25 June 2004-24 June 2014	1.068
Tung Chi Wai, Terrence	1,950,000	—	—	1,950,000	25 June 2004	25 June 2004-24 June 2014	1.068
Kazunori Watanabe	1,600,000	—	—	1,600,000	25 June 2004	25 June 2004-24 June 2014	1.068
	5,850,000	—	—	5,850,000			
Other employees							
In aggregate	24,620,000	—	(440,000)	24,180,000	25 June 2004	25 June 2004-24 June 2014	1.068
	30,470,000	—	(440,000)	30,030,000			

* 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% 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 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 15 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.

The appropriation of statutory surplus reserve to retained profits was made with respect to the capitalisation of statutory surplus reserve and retained profits as paid-up capital of East Kit Electronic (China) Co., Ltd. and East Kit (Shanghai) in 2003.

17. CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 30 June 2007.

18. OPERATING LEASE ARRANGEMENTS

As Lessor

The Group leases its investment properties under operating lease arrangement with leases negotiated for terms of one year.

As 30 June 2007, the Group had total future minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Within one year	96	205
In the second to fifth years, inclusive	—	61
	<u>96</u>	<u>266</u>

As Lessee

The Group has no lease arrangement as at 30 June 2007. As at 31 December 2006, the Group has total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Within one year	—	73
	<u>—</u>	<u>73</u>

19. COMMITMENTS

	Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
Contracted, but not provided for the acquisition of plant & machinery:	—	2,643
Contracted, but not provided for the acquisition of building	—	578
	<u>—</u>	<u>3,221</u>

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. APPROVAL OF INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 17 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Overall Financial Results

During the Period, the turnover of the Group dropped approximately 1.7% to HK\$535.6 million comparing with HK\$545 million in the corresponding period of 2006. The gross profit decreased from HK\$54.1 million of the same period of last year to HK\$34.8 while overall gross profit ratio dropped from 9.9% to 6.5%. The net loss attributable to equity holders of the parent company was HK\$49.2 million for the Period compared with a profit of HK\$13.6 million during the same period of last year. Loss per share was HK12.3 cents in the Period.

Turnover

During the Period, the decrease in turnover mainly due to the selling price pressure in the TV chassis market. The sales volume of CRT chassis increased slightly to 2.8 million sets of completed sets/components (2006: 2.5 million). However, the unit price decreased which caused the slightly 1.7% decrease in turnover of the Group.

Gross Profit

The gross profit ratio decreased to 6.5% from 9.9% of the corresponding period of last year because of the decreasing market price trend in TV market. At the same time, the purchasing costs were not reduced at the same level under the market situations of certain major raw materials and components.

Financial position and liquidity

	30 June 2007	31 December 2006
Current ratio	0.97	1.04
Quick ratio	0.79	0.84
Gearing ratio	17.6%	15.2%

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

As of 30 June 2007, the Group's total cash and cash equivalents was approximately HK\$59.3 million (31 December 2006: HK\$81 million). The decrease in cash and cash equivalents was mainly due to the Group improved the repayment condition to our vendors to get better purchase terms. The current ratio and quick ratio decreased during the Period at 0.97 and 0.79 respectively as at 30 June 2007 (31 December 2006: 1.04 and 0.84).

The bank and other borrowings, were HK\$158.5 million as of 30 June 2007 and HK\$143.8 million as of 31 December 2006, were used to finance the working capital of the Group as gearing ratio increased to 17.6% as of 30 June 2007 compared with 15.2% on 31 December 2006.

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 30 June 2007 and 2006, 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.

Impairment of Trade Receivables

During the period, amount of HK\$35.5 million was provided as provision for bad and doubtful debts. For some details of the provision, please refer to Note 12 of the Notes to the Unaudited Condensed Consolidated Interim Financial Statements.

The provision was made after considering the long outstanding period of the debtors, the recent monthly repayment situations and the estimation on the valuation of the assets under pledge to the Group as at 30 June 2007. Though the provision was made for prudence sake, the Group is still continuing to make effort to recover such debtors.

Charge on Assets

As at 30 June 2007, the Group has pledged assets with aggregate carrying value of RMB45.1 million (approximately HK\$46.3 million) locating in Shanghai to secure certain banking facilities in PRC (2006: Nil).

Also, as at 30 June 2007, assets locating in Hong Kong with aggregate carrying value of HK\$29.4 million was pledged to secure with mortgage loans in Hong Kong (2006: Nil).

Capital Expenditures

Capital expenditures for the six months ended 30 June 2007 were approximately HK\$2.6 million (six months ended 30 June 2006: HK\$5.2 million) the majority of which was spent for the purchase of production machineries 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 30 June 2007, the sales of CTV chassis were our major income source. The total sales in the PRC were HK\$241.3 million, representing a decrease of 4% when compared with HK\$252.2 million for the same period in 2006. The sales in the PRC accounted for 45% (six months ended 30 June 2006: 46.3%) of the Group’s total sales income.

For overseas market, European market is the major sales market of our LCD products, while our CRT products are also sold to the emerging markets like Russia, India, etc.. For the six months ended 30 June 2007, the Group’s total sales in overseas markets amounted to HK\$294.3 million, representing an increase of 0.5% when compared with HK\$292.8 million for the same period in 2006. Overseas sales accounted for 55% (six months ended 30 June 2006: 60.6%) of the Group’s total sales.

Market Development

In 2007, the growth of the PRC CTV market remains strong. CRT CTV continues to contribute the largest CTV market share in the PRC, but showing a trend of a slow declining. As the LCD TV developed rapidly, the sales increased significantly and tended to catch up the sales of CRT TVs. In respect of the export, according to the estimation provided by iSuppli, a well-known research institution, the number of PRC TV exports will reach 39.6 million sets and the domestic production volume will be 38.3 million sets, the exports exceed the domestic sales for the first time.

Business Development

During the Period, the selling price of the global CRT products generally dropped, only the price in South America and South East Asia was stable and mildly increased. As the continuous price increase of certain raw materials resulting in a rapid decrease in the selling price than in the cost, the gross profit is shrinking. Since the selling price is subjected to the cost, the Company has not expanded the sales of CRT. The CRT products of the Group are mainly sold to Russia, India and other regions in Asia, South America, etc..

The Company has positioned to develop the LCD product sales business aggressively. During the Period, the Group concentrated resources on LCD business development in order to upgrade the production capacity and the purchasing level, so as to improve the operations of the overall product line integration. Meanwhile, the Group noticed that the demand for the LCD in the global market soared, resulting in the shortage of LCD panel. In view of consolidating the stability of the orders, the Group actively pays more attention to the supply and demand conditions of the LCD panel market and establishes good relationship with panel manufacturers. The LCD products of the Group are mainly sold to Europe and North America.

During the Period, the Group has set up a wholly-owned Shanghai Mitsumaru Automobile Electronic Company Limited (上海三丸汽車電子有限公司) in Shanghai.

Outlook

Looking forward, the flat TVs will be the mainstream of the future development. The LCD TVs will continue to develop rapidly while CRT TVs will remain at an unfavourable position in the competitions. Since the price competition of the flat TVs becomes intensive, substantial price cut popularizes the flat TVs. Based on the estimation of China Electronic Chamber of Commerce, the domestic sales of the flat TVs was 3.6 million sets in the first half year of 2007, the consumption demand may reach approximately 8 million sets for the year. It is expected that at the end of 2007, the flat TV possession of the PRC urban household will be 15 million sets, and 10% of the urban household will possess flat TVs.

Moreover, iSuppli, a well-known research institution, estimated that the PRC TV export market will be increased to 54.5 million sets in 2011 and the domestic TV production volume will be increased to 45.8 million sets in the corresponding period. The CTV export market shrank mainly due to the substantial shrinkage of the CRT TV market, the overseas technological problem encountered in the domestic flat TV exports and the large production volume of the OEM manufacturers sharpened the competitions.

In the future, the large-scale factory customers of the target sales market will be one of our targeted strategic partners, taking the advantages of both parties and closely match up the effects of the products and the market, a long-term and stable market share will be obtained. Based on the original market share, the Group will focus on developing North America (such as United States and Mexico) and Europe (such as United Kingdom) markets. We also place more emphasis on the products with high performance cost ratio and provide iDTV that would meet different market needs.

The Group will give efforts to improve the profits and bring positive investment returns to the shareholders.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

The details in the table below, together with the accompanying notes, set out the details of the people other than the Directors in respect of whom as of 30 June 2007, the Company has been notified of interests or short positions in the shares and underlying shares of the Company, and for whom the Company has recorded those interests or short positions in the register required to be kept under Section 336 of the Securities and Futures Ordinance, chapter 571 of the Laws of Hong Kong (the “SFO”):

Name of substantial shareholders	Class of shares	Number of shares held	Percentage of shareholding in the total issued share capital
Z-Idea Company Limited (<i>Note 1</i>)	Ordinary Shares	249,000,000 (L)	62.25%
Mr. Zhang Shuyang (<i>Note 2</i>)	Ordinary Shares	249,000,000 (L)	62.25%
Good Day International Limited (<i>Note 3</i>)	Ordinary Shares	45,000,000 (L)	11.25%
Ms. Wu Lixia (<i>Note 4</i>)	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 of Mr. Zhang in 249,000,000 shares of the Company is a deemed corporate interest deriving from his beneficial ownership of all the issued share capital of Z-Idea Company Limited.
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.
4. The interest of Ms. Wu in 45,000,000 shares of the Company is a deemed corporate interest deriving from her beneficial ownership of 95% of the issued share capital of Good Day International Limited.
5. The letter “L” denotes a long position.

DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The details in the tables below, together with the accompanying notes, set out the details of the Directors in respect of whom, as of 30 June 2007:

- (a) the Company has been notified of interests or short positions in the shares and underlying shares of the Company, and for whom the Company has recorded those interests or short positions in the register required to be kept under Section 352 of the Securities and Futures Ordinance, chapter 571 of the Laws of Hong Kong (the “SFO”); or
- (b) the Company has otherwise been notified under the Model Code for Securities Transactions by Directors of Listed Companies (as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and adopted by the Company) (the “Model Code”):

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 of Mr. Zhang in 249,000,000 shares of the Company is a deemed corporate interest deriving from his beneficial ownership of all the issued share capital of Z-Idea Company Limited.
- (b) The interest of Mr. Tung in 6,000,000 shares of the Company is a deemed corporate interest deriving from his beneficial ownership of all the issued share capital of T-Square Company Limited.

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 30 June 2007, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

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 30 June 2007.

DIRECTORS' COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The board of Directors of the Company (the "Board") has adopted the Model Code and the Company confirms that, after specific enquiry with each Director, each Director has confirmed compliance with the Model Code for the six month period ending 30 June 2007.

COMPLIANCE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company complied with all applicable provisions of the Code on Corporate Governance Practices (the “Corporate Governance Code”) as set out in Appendix 14 of the Listing Rules for the six month period ending 30 June 2007, except that:

1. the Board formally appointed Mr. Zhang Shuyang as Chief Executive Officer of the Company on 25 April 2007. Thus, the roles of Chairman of the Company and Chief Executive Officer of the Group are performed by the same individual, namely Mr. Zhang Shuyang. The Board considers that the Group significantly benefits from Mr. Zhang Shuyang also being ultimately responsible for the day-to-day operation of the Group as this facilitates both the Board and management benefiting from his leadership support and experience, and from the consistent, efficient and effective planning and implementation of the Group’s long-term strategies and policies.
2. the Board formally adopted written procedures on 25 April 2007 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group.
3. the Board formally adopted written terms of reference on 25 April 2007 to govern the authority and duties of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. This supplemented and enhanced the prior practice of these Committees of acting in accordance with the corresponding duties set out in the Corporate Governance Code.
4. the Board has formally adopted a code of conduct recently regarding securities transactions by directors of the Company on terms no less exacting than the required standards set out in the Model Code. This supplemented and enhanced the prior practice of the Board of acting in accordance with the requirements of the Model Code.

AUDIT COMMITTEE

The Company has an Audit Committee, which was established on 22 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. The Audit Committee comprises the three independent non-executive Directors of the Company.

The Audit Committee of the Company has reviewed the unaudited interim accounts of the Group for the six months ended 30 June 2007.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE’S WEBSITE

The Company will submit to The Stock Exchange of Hong Kong Limited (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 and Mr. Tung Chi Wai, Terrence and the independent non-executive Directors are Mr. Ede Hao Xi, Ronald, Mr. Mu Xiangming and Mr. Li Yueh Chen.

On Behalf of the Board
Mitsumaru East Kit (Holdings) Limited
Zhang Shuyang
Chairman

Hong Kong, 17 September 2007