



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)



INTERIM REPORT 2009



CONTENTS

	Page
Corporate Information	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Balance Sheet	5
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	8
Notes to the Condensed Consolidated Financial Statements	9
Management Discussion and Analysis	22
Interests of Substantial Shareholders	25
Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures	26
Supplementary Information	28

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

Mr. Kwong Ping Man
Mr. Martin He
Mr. Mu Xiangming

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY

Mr. Cheng Sik Kong

AUTHORISED REPRESENTATIVES

Mr. Zhang Shuyang
Mr. Leung Koon Sing

AUTHORISED REPRESENTATIVES

(to accept service of process and notices under Part XI of the Hong Kong Companies Ordinance)

Mr. Leung Koon Sing
Mr. Cheng Sik Kong

AUDITORS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

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

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

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

STOCK CODE

2358

WEBSITE

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

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2009

	Notes	Unaudited As at 30 June 2009 HK\$'000	Audited As at 31 December 2008 HK\$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	13	40,000	40,000
Reserves	15	(52,041)	(35,867)
		(12,041)	4,133
Minority interests		806	1,016
(Deficiency)/surplus in equity		(11,235)	5,149

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

Unaudited
Six months ended 30 June

	2009	2008
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(86,771)	11,144
Net cash inflow from investing activities	633	10,203
Net cash inflow/(outflow) from financing activities	53,396	(40,597)
Decrease in cash and cash equivalents	(32,742)	(19,250)
Effect of foreign exchange rate changes, net	—	1,113
Cash and cash equivalents at beginning of the Period	42,853	71,483
Cash and cash equivalents at end of the Period	10,111	53,346
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	10,111	53,346

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendment to HKFRS 2: “Share-based payment”

The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amended standard does not have a material impact on the Group’s financial statements.

All “non-vesting conditions” and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant to the Group:

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKAS 23 (Revised)	Borrowing Costs
HK(IFRIC) — Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) — Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Interpretation 16	Hedges of a Net Investment in a Foreign Operation

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

HKFRSs (Amendments)	Improvements to HKFRSs 2009 ¹
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ³
Amendments to HKFRS 1	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters ²
Amendment to HKAS 39	Eligible Hedged Items ³
Amendments to HKFRS 5	Non-current Assets Held For Sale and Discontinued Operations ²
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions ²
Amendments to HK(IFRIC) — Interpretation 9 and HKAS 39	Embedded Derivatives ⁴
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKFRS 3 (Revised)	Business Combinations ³
HK(IFRIC) — Interpretation 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC) — Interpretation 18	Transfers of Assets from Customers ⁵

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Interest on bank loans wholly repayable within five years	716	3,173
Interest on bank loans not wholly repayable within five years	—	256
Interest on finance lease payables	—	50
Interest on amounts due from directors (note 20(c))	103	417
Total interest expenses	819	3,896

6. LOSS BEFORE TAX

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

	Unaudited Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Cost of inventories sold	100,702	336,101
Depreciation for property, plant and equipment	6,705	6,486
Amortisation of prepaid land premiums	84	175
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	12,191	25,160
Equity-settled share option expense	—	277
Pension scheme contributions	1,078	4,048
	13,269	29,485
Research and development cost	407	121
Impairment of assets classified as held for sale	—	2,290
Foreign exchange difference, net*	(55)	8,777

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

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

The calculation of basic loss per share for the Period is based on the loss for the Period attributable to ordinary equity holders of the Company of HK\$28,442,000 (six months ended 30 June 2008: loss of HK\$19,603,000) and 400,000,000 (six months ended 30 June 2008: 400,000,000) ordinary shares in issue during the Period.

The diluted loss per share amounts for the six months ended 30 June 2009 and 2008 is same as the basic loss per share as the outstanding options during the both periods have an anti-dilutive effect on the basic earnings per share for these periods.

9. DIVIDEND

The board of directors has resolved not to declare any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, there was no addition or disposal of property, plant and equipment. During the six months ended 30 June 2008, approximately HK\$544,000 was spent on acquisition of property, plant and equipment and the Group disposed of buildings with a carrying amount of approximately HK\$1,816,000.

11. TRADE AND NOTES RECEIVABLES

	Unaudited As at 30 June 2009 HK\$'000	Audited As at 31 December 2008 HK\$'000
Trade and notes receivables	198,202	218,241
Impairment	(139,520)	(143,899)
	58,682	74,342

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

13. SHARE CAPITAL

	Unaudited As at 30 June 2009 HK\$'000	Audited As at 31 December 2008 HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid: 400,000,000 ordinary shares of HK\$0.1 each	40,000	40,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 14 to the condensed consolidated financial statements.

14. SHARE OPTION SCHEMES

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

The Scheme

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, 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 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 in any event shall not be more than 10 years from the date of the offer of the share options.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

14. SHARE OPTION SCHEMES (CONTINUED)

The Pre-IPO Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at 30 June 2009 are as follows:

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

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

The fair value of the Pre-IPO share option granted on 25 June 2004 was HK\$7,598,000. It was estimated by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, using binomial model taking into account the terms and conditions upon which the options were granted. During the Period, no share option expense was recognised by the Group (six months ended 30 June 2008: HK\$277,000). The following table lists the inputs to the model used for calculating the fair value of the Pre-IPO share options at the date of grant as follows:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

18. OPERATING LEASE ARRANGEMENTS

During the six months ended 30 June 2009, the Group leased its office properties under operating lease arrangements which were negotiated for terms of one to three years. At 30 June 2009, the Group's minimum lease obligation under non-cancellable operating leases in respect of land and buildings details are as follow:

	Unaudited As at 30 June 2009 HK\$'000	Audited As at 31 December 2008 HK\$'000
Within one year	1,096	2,192
In the second to fifth years, inclusive	5,048	5,048
	6,144	7,240

19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, the Group had the following capital commitments at the balance sheet date:

	Unaudited As at 30 June 2009 HK\$'000	Audited As at 31 December 2008 HK\$'000
Contracted, but not provided for the capital contribution payable to available-for-sale investment	810	810

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall Financial Results

During the Period, the Group achieved approximately HK\$103,500,000 in turnover, representing a decrease of approximately 72% from that of approximately HK\$373,700,000 during the same period of last year. Gross profit was approximately HK\$2,700,000, representing a decrease of approximately 93% from that of approximately HK\$37,100,000 during the same period of last year. The overall gross profit ratio dropped from approximately 10% to approximately 3%. Loss for the Period attributable to ordinary equity holders of the Company was approximately HK\$28,400,000 (for the same period of last year: approximately HK\$19,600,000). Basic loss per share attributable to ordinary equity holders of the Company was approximately HK\$7.1 cents (for the same period of last year: approximately HK\$4.9 cents). As at the balance sheet date, the balance of cash and cash equivalents and pledged deposits were approximately HK\$10,100,000 (31 December 2008: HK\$42,900,000) and approximately HK\$17,400,000 (31 December 2008: HK\$57,700,000) respectively.

Turnover

During the Period, the decrease in turnover was mainly due to economic recession and overall shrinking global demand in CTV products.

Gross Profit

During the Period, the decrease of the gross profit ratio was mainly attributable to dropping in profit margin as the steps taken for controlling fixed costs were not catch up with the declining turnover.

Financial Position and Liquidity

	30 June 2009	31 December 2008
Current ratio	0.52	0.64
Quick ratio	0.36	0.51
Gearing ratio*	13%	6%

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

As at 30 June 2009, the Group's total cash and cash equivalents was approximately HK\$10,100,000 (31 December 2008: approximately HK\$42,900,000). The decrease in cash and cash equivalents was used for paying overdue creditors. The current ratio and quick ratio were approximately 0.52 and 0.36 (31 December 2008: approximately 0.64 and 0.51) respectively.

As at 30 June 2009, the bank borrowings of the Group were approximately HK\$38,600,000 (31 December 2008: approximately HK\$24,700,000). The gearing ratio increased to approximately 13% on 30 June 2009 from approximately 6% on 31 December 2008.

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

The details in the tables below, together with the accompanying notes, set out the details of the Directors or chief executive of the Company in respect of whom, as at 30 June 2009:

- (a) the Company has been notified of interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, and for whom the Company has recorded those interests or short positions in the register required to be kept under Section 352 of 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	Approximate percentage of the Company's issued capital
Mr. Zhang Shuyang (Note)	Interest of controlled corporation	249,000,000	62.25%

The interests of the Directors in the share options of the Company are separately disclosed in the section headed "Share Option Schemes".

Note: 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.

Save as disclosed above, as at 30 June 2009, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEMES

On 22 June 2004, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") were approved and adopted by the shareholders of the Company.

(a) Pre-IPO Share Option Scheme

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

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

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

SUSPENSION OF TRADING

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

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

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

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

The Company, through its legal advisors, requested ICAC and the relevant Hong Kong judiciary for copies of the search warrant, court transcript, and fact sheet of the Cases, which are evidence to corroborate the confirmation from Mr. Zhang.

Having identified the Subject Matter, the Company engaged HLB Hodgson Impey Cheng (the “HLB”) on 12 June 2009 to conduct review on the Subject Matter and the sales to two groups of customers located in Russia and Argentina at the request of the Stock Exchange. Draft reports of the aforesaid reviews were delivered to the members of the Independent Committee and a meeting was subsequently held on 11 August 2009 during which members of the Independent Committee were satisfied with the initial findings of HLB. The Company expects that the report of HLB will be finalized by October 2009.

In January 2009, the Company engaged an independent accountant firm to conduct a general review of the Group’s internal control system. A draft report, which identified the deficiencies of the internal control system, was issued in February 2009. Since then, the Company tried to rectify the deficiencies mentioned in the report and has been drafting a detailed policy and procedures with a view to enhancing the effectiveness of internal controls. However, for cost saving reason and administrative convenience, the Company engaged HLB on 20 July 2009 to complete such internal control review on the operations of the Company. It is expected that the report of the internal control review will be finalized by the end of 2009.

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

