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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, 2004 (the "Period").

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004

| | | Unaudited | |
|--|--------------|------------------------------------|-----------------|
| | | Six months ended 30th June, | |
| | <i>Notes</i> | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 |
| Turnover | 2 | 246,309 | 283,973 |
| Cost of sales | | (208,626) | (241,913) |
| Gross profit | | 37,683 | 42,060 |
| Other revenues and gains | 2 | 845 | 1,182 |
| Selling and distribution expenses | | (1,639) | (1,235) |
| Administrative expenses | | (14,074) | (10,985) |
| Other operating expenses | | — | (472) |
| Profit from operating activities | 4 | 22,815 | 30,550 |
| Finance costs | | (2,919) | (2,866) |
| Profit before tax | | 19,896 | 27,684 |
| Tax | 5 | (1,970) | (4,600) |
| Profit before minority interests | | 17,926 | 23,084 |
| Minority interests | | 190 | — |
| Net profit from ordinary activities | | | |
| attributable to shareholders | | 18,116 | 23,084 |
| Dividends | 6 | Nil | Nil |
| Earnings per share | 7 | | |
| Basic (HK cents) | | 6.04 | 7.69 |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2004

| | Notes | Unaudited 30th June, 2004 HK\$'000 | Audited 31st December, 2003 HK \$'000 |
|---|-------|---|--|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 9 | 46,027 | 36,620 |
| Construction in progress | 10 | 10,411 | — |
| Long term deposit | | — | 7,083 |
| Other investment | | 3,511 | 3,511 |
| Deferred tax assets | | 21,987 | 21,987 |
| Restricted time deposits | | 10,669 | 10,278 |
| | | 92,605 | 79,479 |
| CURRENT ASSETS | | | |
| Inventories | | 58,077 | 60,344 |
| Trade receivable | 11 | 157,852 | 163,210 |
| Notes receivable | | 7,594 | 10,392 |
| Prepayments, deposits and other receivables | | 14,940 | 35,517 |
| Short term investments | | 561 | 561 |
| Tax recoverable | | — | 3,995 |
| Due from directors | | — | 42,724 |
| Pledged deposits | | 64,583 | 37,608 |
| Cash and cash equivalents | | 21,355 | 49,185 |
| | | 324,962 | 403,536 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 12 | 195,922 | 239,060 |
| Profits tax and corporate income tax payable | | 4,452 | 9,872 |
| Other payables, accrued liabilities and deposits received | | 51,769 | 37,522 |
| Interest-bearing bank borrowings | | 59,930 | 44,874 |
| Finance lease payables | | 106 | 106 |
| | | 312,179 | 331,434 |
| NET CURRENT ASSETS | | 12,783 | 72,102 |

| | Notes | Unaudited 30th June, 2004 HK\$'000 | Audited 31st December, 2003 HK \$'000 |
|--|-------|---|--|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 105,388 | 151,581 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | 5,244 | 4,823 |
| Finance lease payables | | 125 | 103 |
| Deferred tax liabilities | | 912 | 912 |
| | | 6,281 | 5,838 |
| Minority interests | | 159 | 349 |
| | | 98,948 | 145,394 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 13 | 10 | 5,000 |
| Reserves | | 98,938 | 140,394 |
| Equity | | 98,948 | 145,394 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

| | Issued capital Note (a) HK\$'000 | Contributed surplus HK\$'000 | Statutory surplus reserve Note (b) HK\$'000 | Expansion reserve Note (b) HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---|------------------------------------|---|--|--|---------------------------------|-------------------|
| At 1st January, 2003 | 5,000 | — | 9,792 | 701 | (27) | 65,483 | 80,949 |
| Net profit for the period | — | — | — | — | — | 23,084 | 23,084 |
| Profit appropriation | — | — | — | — | — | — | — |
| Exchange realignment | — | — | — | — | 35 | — | 35 |
| At 30th June, 2003 | <u>5,000</u> | <u>—</u> | <u>9,792</u> | <u>701</u> | <u>8</u> | <u>88,567</u> | <u>104,068</u> |
| At 1st January, 2004 | 5,000 | — | 6,474 | 701 | (314) | 133,533 | 145,394 |
| Shares issued | 10 | — | — | — | — | — | 10 |
| Contributed surplus arising from Reorganisation | (5,000) | 4,990 | — | — | — | — | (10) |
| Net profit for the Period | — | — | — | — | — | 18,116 | 18,116 |
| Profit appropriation | — | — | 5,943 | — | — | (5,943) | — |
| Dividend | — | — | — | — | — | (65,000) | (65,000) |
| Exchange realignment | — | — | — | — | 438 | — | 438 |
| At 30th June, 2004 | <u>10</u> | <u>4,990</u> | <u>12,417</u> | <u>701</u> | <u>124</u> | <u>80,706</u> | <u>98,948</u> |

Notes:

- (a) For the purpose of the presentation of the combined balance sheets as at 31st December, 2002 and 31st December, 2003, the issued capital as at the said balance sheet dates represents the issued and paid-up capital of Mitsumaru (Holdings) Limited. The issued capital as at 30th June, 2004 represents the issued and paid-up capital of the Company.
- (b) In accordance with the relevant regulations of The People's Republic of China ("PRC"), the PRC subsidiaries of the Group are required to transfer 10% of their profits after tax, as determined under the PRC accounting regulations to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capitals. The statutory surplus reserve is non-distributable, and subject to certain restrictions set out in the relevant PRC regulations, these reserves can be used to offset accumulated losses or be capitalized as paid-up capital.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

| | Unaudited | |
|--|------------------------------------|-----------------|
| | Six months ended 30th June, | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Net cash inflow from operating activities | 18 | 16,746 |
| Net cash outflow from investing activities | (15,538) | (2,599) |
| Net cash outflow from financing activities | (12,389) | (5,260) |
| | <hr/> | <hr/> |
| Increase/(decrease) in cash and cash equivalents | (27,909) | 8,887 |
| Effect of foreign exchange rate changes, net | 79 | 2 |
| Cash and cash equivalents at beginning of the period | 49,185 | 31,730 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | 21,355 | 40,619 |
| | <hr/> | <hr/> |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | 21,355 | 40,619 |
| | <hr/> | <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements ("Interim Accounts") have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is in compliance with Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation are the same as those used in the accountants' report included in the prospectus of the Company dated 30th June, 2004 (the "Prospectus").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30th January, 2004 under the Companies Law of the Cayman Islands.

On 22nd June, 2004, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of the Stock Exchange, the Company became the holding company of its subsidiaries.

The Reorganisation involved companies under common control. The Interim Accounts and the related notes thereto have been prepared using the merger basis of accounting in accordance with SSAP 2.127 "Accounting for group reconstructions". On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent dates of acquisition of the subsidiaries. The unaudited condensed consolidated results of the Group for each of the six months ended 30th June, 2004 and 2003 include the results of the Group with effect from 1st January, 2003 or since their respective dates of incorporation, where this is a shorter period. The unaudited condensed consolidated balance sheets as at 30th June, 2004 and 31st December, 2003 have been prepared on the basis that the current group structure was in place at those dates.

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

In the opinion of the Directors, the presentation of the Interim Accounts prepared on the above basis presents more fairly the results and state of affairs of the Group as a whole.

The Company's shares were listed on the Main Board of the Stock Exchange on 15th July, 2004 (the "Share Offer"). Details of the Reorganisation are set out in the Prospectus.

2 Revenue

The Group is principally engaged in the design, development and sale of television chassis, material requisition and assembling of color television sets. Revenues recognised during the six months ended 30th June, 2004 and 2003 are as follows:

| | Unaudited | |
|-------------------------|------------------------------------|-----------------|
| | Six months ended 30th June, | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Sale of goods | 246,309 | 283,973 |
| Other revenue and gains | | |
| Bank interest income | 529 | 520 |
| Rental income | — | 76 |
| Subsidy income | 204 | 462 |
| Sundry income | 112 | 124 |
| | 845 | 1,182 |

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 chassis for color television and trading of related components, and assembling of color television sets. Design of chassis for color television and trading of related components constitute more than 90% of the Group's turnover. Moreover, the segment results and segment assets for the assembling of color television sets 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, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of assets.

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

3 Segment information (Continued)

(ii) *Geographical segments (Continued)*

(i)

| | Unaudited | |
|---------------------------|------------------------------------|-----------------|
| | Segment revenue | |
| | Sales to external customers | |
| | Six months ended 30th June, | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| PRC | 159,016 | 149,428 |
| Asia (other than the PRC) | 48,182 | 75,622 |
| Europe | 36,018 | 43,652 |
| Australia | 3,093 | 13,102 |
| Others | — | 2,169 |
| | 246,309 | 283,973 |

(ii)

| | Unaudited | |
|----------------------------|-----------------------|-----------------------|
| | Segment assets | |
| | 30th June, | 31st December, |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 100,232 | 178,660 |
| PRC (other than Hong Kong) | 313,975 | 302,824 |
| Europe | 3,360 | 1,531 |
| | 417,567 | 483,015 |

(iii)

| | Unaudited | |
|----------------------------|-------------------------------------|-----------------|
| | Segment capital expenditures | |
| | Six months ended 30th June, | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 296 | 123 |
| PRC (other than Hong Kong) | 19,522 | 2,266 |
| Europe | — | — |
| | 19,818 | 2,389 |

4 Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

| | Unaudited | |
|--|------------------------------------|-----------------|
| | Six months ended 30th June, | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 199,233 | 229,369 |
| Depreciation | 1,750 | 1,003 |
| Staff cost (including directors' remuneration) | | |
| Wages and salaries | 14,372 | 9,012 |
| Pension scheme contributions | 667 | 468 |
| | 15,039 | 9,480 |
| Minimum lease payments under operating leases in respect of land and buildings | 752 | 673 |
| Provision for slow-moving inventories | — | 4,010 |
| Research and development ("R&D") costs | 3,378 | 2,345 |
| Exchange loss | 255 | 284 |

5 Tax

Currently, no taxes are imposed in the Cayman Islands on income or capital profit of the Group.

Hong Kong profits tax has been provided at the rate of 17.5% for the six months ended 30th June, 2003 on the estimated assessable profits arising in Hong Kong during the six months ended 30th June, 2003. No assessable profits has been generated 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 the PRC 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 entitled to a 50% exemption from CIT for the following three years.

East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)") was exempted from CIT for the year ended 31st December, 2001 and was granted a 50% exemption from CIT for each of the next three years starting from 1st January, 2002. The CIT rate applied to East Kit (Shanghai) from 1st January, 2002 to 31st December, 2004 was 13.5%.

Starting from 1st January, 2002, upon obtaining an approval for additional concession, East Kit Electronic (China) Co., Ltd. ("East Kit (China)") was granted a 50% exemption from national portion and full exemption from local portion of CIT for three years as it qualified as a "Hi-tech company" pursuant to the PRC tax regulations. For the six months ended 30th June 2004, the CIT rate applied to East Kit (China) was 12%.

Mitsumaru Electrical (Wuhu) Co., Ltd. has not been subject to CIT since incorporation as it has not yet fully utilised the tax losses brought from prior years in offsetting its assessable profits.

5 Tax (Continued)

The amount of taxation charged to the condensed consolidated income statement represents:

| | Unaudited | |
|---|------------------------------------|-----------------|
| | Six months ended 30th June, | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current period provision in respect of: | | |
| The PRC | 1,970 | 3,003 |
| Hong Kong | — | 1,597 |
| | <hr/> | <hr/> |
| Tax charge | 1,970 | 4,600 |
| | <hr/> | <hr/> |

6 Dividends

The Directors have resolved not to declare any interim dividend for the six months ended 30th June, 2004. (2003: Nil)

Pursuant to a resolution of all shareholders of Mitsumaru (Holdings) Limited passed on 19th June, 2004, a special dividend in an aggregate of HK\$65 million to its then shareholders was declared.

7 Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the six months ended 30th June, 2004 and 2003, and on the assumption that 300,000,000 shares had been in issue throughout the six months ended 30th June, 2004 and 2003, as if the 100,000 shares were in issue since 1st January, 2003 and as if the capitalization issue of 299,900,000 shares had been taken place on 1st January, 2003.

Diluted earnings per share for six months ended 30th June, 2004 and 2003 have not been disclosed as no diluting events existed during such periods.

8 Related party transactions

On 18th June, 2004, East Kit (China) entered into an agreement with Mr. Zhang Shuyang, a director of the Company, pursuant to which East Kit (China) agreed to transfer its 32% equity interest in Hangzhou Guoxin Technology Company Limited ("Hangzhou Guoxin") to Zhang Shuyang at a consideration of Rmb3,200,000, which was determined by the proportionate face value of the registered capital of Hangzhou Guoxin. As at 30th June, 2004, the legal procedures in connection with the equity transfer, including the registration with relevant authority, are still in process.

9 Fixed assets

During the six months ended 30th June, 2004, approximately HK\$7.8 million was spent on the purchase of the factory buildings, together with the land-use-right, located at No. 48, Yijiang Road Central, Wuhu City, Anhui Province, the PRC.

During the six months ended 30th June, 2003, approximately HK\$2.4 million was spent on the purchase of research and development equipment and motor vehicles.

10 Construction in progress

During the six months ended 30th June, 2004, approximately HK\$10.2 million was spent for the construction of the new office building, R&D center and warehouse in Shanghai (2003: Nil).

11 Trade receivable

The ageing analysis of trade receivable at the respective balance sheet dates, based on invoice dates, is as follows:

| | Unaudited | Audited |
|----------------------|-----------------------|----------------|
| | As at | As at |
| | 30th June, | 31st December, |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Within 90 days | 92,099 | 137,698 |
| 91 days to 180 days | 52,111 | 14,748 |
| 181 days to one year | 6,637 | 9,077 |
| Over one year | 7,005 | 1,687 |
| | <u>157,852</u> | <u>163,210</u> |

A defined credit policy is maintained by the Group. The general credit term ranges from 45 days to 90 days, except for certain well-established customers with a long business relationship with the Group, where the terms are extended. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are regularly reviewed by senior management of the Group.

12 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, |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Within 180 days | 175,346 | 213,304 |
| 181 days to one year | 14,359 | 14,391 |
| one year to two years | 4,742 | 5,056 |
| Over two years | 1,475 | 6,309 |
| | <u>195,922</u> | <u>239,060</u> |

13 Share capital

| | Ordinary shares of HK\$0.1 each | |
|---|---------------------------------|----------|
| | No. of shares | HK\$'000 |
| Authorised | 100,000,000 | 10,000 |
| Issued and fully paid: | | |
| At the date of incorporation and after share consolidation on | | |
| 19th June, 2004 (Note (a)) | 10 | — |
| Shares allotted and issued on 22nd June, 2004 (Note (b)) | 99,990 | 10 |
| At 30th June, 2004 | 100,000 | 10 |

Notes

- (a) On 30th January, 2004, the Company was incorporated with an authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 13th February, 2004, 100 shares of HK\$0.01 each were issued nil paid to Z-Idea Company Limited ("Z-Idea"), Good Day International Limited ("Good Day") and T-Square Company Limited ("T-Square") as to 83 shares, 15 shares and 2 shares, all of HK\$0.01 each, respectively.

On 19th June, 2004, by a written resolution of all shareholders of the Company, every 10 shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one share of HK\$0.10. Following such consolidation, the Company had an authorized share capital of HK\$380,000 divided into 3,800,000 shares and an issued share capital of 10 shares of HK\$0.10 each.

- (b) On 22nd June, 2004, as part of the Reorganisation, the Company acquired the entire issued share capital of Mitsumaru East Kit (Group) Limited from Z-Idea, Good Day and T-Square and in consideration of such acquisition, the Company allotted and issued 82,991.7 shares, 14,998.5 shares and 1,999.8 shares to Z-Idea, Good Day and T-Square respectively, all credited as fully paid and credited as fully paid at par the 10 nil paid shares in the issued share capital of the Company.

- (c) On 22nd June, 2004, an extraordinary general meeting of the Company was held, pursuant to which, the authorized share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of a further 996,200,000 shares.

Immediately upon completion of the Share Offer, the authorized share capital of the Company is HK\$100,000,000 divided into 1,000,000,000 shares, of which 400,000,000 share will be issued fully paid or credited as fully paid and 600,000,000 share will remain unissued.

- (d) For the purpose of the presentation of the combined balance sheet as at 31st December, 2003, the issued capital as at 31st December, 2003 represents the issued and paid-up capital of Mitsumaru (Holdings) Limited.

14 Contingent liabilities

The Group did not have any material contingent liabilities as at 30th June, 2004 (31st December, 2003: Nil).

15 Commitments

| | Unaudited 30th June, 2004 HK\$'000 | Audited 31st December, 2003 HK\$'000 |
|--|---|---|
| (i) Capital commitments in respect of purchases of fixed assets: | | |
| - authorized, but not contracted for | — | 19,052 |
| - contracted, but not provided for | 15,422 | 7,250 |
| Total | 15,422 | 26,302 |

(ii) Operating lease commitments

As at 30th June, 2004, the Group has total future minimum lease payments under non-cancelable operating leases in respect of land and buildings falling due:

| | Unaudited 30th June, 2004 HK\$'000 | Audited 31st December, 2003 HK\$'000 |
|---|---|---|
| Within one year | 412 | 1,130 |
| In the second to fifth years, inclusive | 103 | 399 |
| | 515 | 1,529 |

16 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.

17 Approval of interim financial report

These condensed consolidated interim financial statements were approved by the Directors on 1st September, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In the first half of 2004, the Group recorded a turnover of HK\$246.3 million, representing a decrease of 13.3% compared to HK\$284.0 million of the same period of last year. Net profit recorded for the Period was HK\$18.1 million, representing a decrease of HK\$5.0 million compared to HK\$23.1 million of the same period of last year. Gross profit dropped to HK\$37.7 million from HK\$42.1 million of the same period of last year while gross profit margin increased to 15.3% for the six months ended 30th June, 2004 compared to 14.8% of the same period of last year.

The deterioration in results was attributable to the overseas customers' intense demands for new models of chassis in the first half of 2004. However, there was a lead time in development and testing, thereby resulting in a decrease of the Group's overseas sales. In addition, purchase orders from overseas were affected due to price-cutting pressure from other exporters, as well as strategic market adjustment of certain customers. Nevertheless, following the completion of the customer's self-adjustment, orders were initiated, and it is expected that there will be growth to a certain extent in the second half of the year.

During the Period, the Group shorten the payment period to its suppliers in order to obtain better purchase terms to maintain the competitiveness of the Group and hence, the gross profit margins improved during the Period.

Financial Position and Liquidity

| | Unaudited 30th June, 2004 | Audited 31st December, 2003 |
|---------------|--|-----------------------------------|
| Current ratio | 1.04 | 1.22 |
| Quick ratio | 0.85 | 1.04 |
| Gearing ratio | 15.6% | 10.3% |

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

As at 30th June, 2004, the Group's total cash and bank balance was approximately HK\$21.4 million (31st December, 2003: HK\$49.2 million). The drop in cash and bank balance was mainly due to the construction of the new office building, research and development center and warehouse in Shanghai, the shortened payment period to its suppliers in order to obtain better purchase terms during the Period. As such, the current ratio and quick ratio drop to 1.04 and 0.85 respectively as at 30th June, 2004 (31st December, 2003: 1.22 and 1.04).

The bank borrowing increased to HK\$65.2 million as at 30th June, 2004 from HK\$49.7 million of 31st December, 2003 in order to finance the working capital of the Group. Thus, the gearing ratio increased to 15.6% as at 30th June, 2004 from 10.3% as at 31st December, 2003.

With the Group's continuing efforts to reinforce its credit control and receivable management, its trade receivable decreased to approximately HK\$157.9 million as at 30th June, 2004 from HK\$163.2 million as at 31st December, 2003. No provision for doubtful debts was made for the Group during the Period.

The Group conducts its core business transaction mainly in Rmb and US dollars. Majority of its cash and bank balances are either in Rmb or USD dollars. During the six months ended 30th June, 2004 and 2003, the Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure is insignificant.

Capital Expenditures

Capital expenditures for the Period were approximately HK\$19.8 million (2003: HK\$2.4 million). Approximately HK\$7.8 million was spent on the purchase of the factory buildings (together with the land-use-right) located at No. 48, Yijiang Road Central, Wuhu City, Anhui Province, the PRC. In addition, the Group has spent approximately HK\$10.2 million for the construction of the new office buildings, research and development center and warehouse in Shanghai during the six months ended 30th June, 2004.

BUSINESS REVIEW

Operations in the PRC

Steady growth was recorded for its operations in the PRC including sales income and net profit over same period of previous year. This was attributable to the strong competitiveness of the Group's products in stocks and more efforts were devoted in promotion by the Group for its PRC operations. Despite the increase of costs incurred for sales promotion, the Directors believe that the results will be improved by the Group's marketing strategies in overcoming various unfavourable factors in the first half of the year. Following the recovery in the domestic and overseas operations, the Directors believe that the Group's profitability will be gradually enhanced.

For the first half of 2004, the Group's operations in the PRC developed steadily. Sales income increased by 6.4% to HK\$159.0 million.

During the Period, the CTV market in the PRC grew slowly but the Group's sales in PRC improved in the Period comparing with the same period of last year. The main reason was that the chassis developed by the Group in the second half of 2003 were easily compatible and could satisfy the needs of the domestic customers for exports to different regions worldwide, so they were well-received by CTV manufacturers in the PRC. In addition, the Group has established strong capabilities in terms of sales and marketing. Apart from maintaining its existing customers, the Group has developed a variety of new models to attract new domestic customers, and many listed TV companies in the PRC selected the chassis developed by the Group for processing and export. The increase in purchase orders from this segment offset the influence of the slow down of the CTV market in the PRC.

Overseas operations

For the first half of 2004, overseas sales accounted for 35.4% of the Group's total sales income.

As the conventional CTV manufacturers in the PRC gradually entered into the overseas export market, and new CTV manufacturers adopted proactive sales strategies for quick return, the Group's overseas sales were adversely affected. Furthermore, the business of the existing customers of the Group were affected and slowed down by acquisition, merger and other market restructuring activities. A new market takes time to emerge.

Although our overseas sales in certain countries faced some oppositions in the market, the sales grew rapidly in Taiwan and Vietnam. In order to further develop the overseas market, the Group carried out in-depth discussions with certain reputable brand to promote its products. In addition, during Period, the Group has completed the preparation stage for the design of products to be manufactured by domestic TV manufacturers in the PRC for export purposes. New business will be introduced during the second half of 2004.

The Group's sales in the second half of 2004 may be affected by shortage in the supply of semiconductors at present. In order to cope with this unfavourable factor, the Group actively communicates with major suppliers and prepares for alternative proposals at the same time. It also confirms on new proposals with customers to guarantee supply.

The products of the Group are mainly sold to countries and regions such as Asia, Europe, the Middle East, Australia and Russia.

BUSINESS PROSPECTS

The Directors expect that in the second half of 2004, growth in the Group's PRC operations will be higher than that in the first half of the year, which was mainly attributable to the increase in export orders of various CTV manufacturers as Christmas is approaching, and the recovery of the domestic market which is expected to take place during the second half of the year. Based on the Group's past experiences, the domestic TV sales is gradually entering into the peak season starting from September, which will continue until the eve of Chinese Lunar New Year. The Group has now received purchase orders and proposals from various CTV manufacturers. Basing on the above factors, the Directors are confident that the Group's sales income from PRC will attain a steady growth in the second half of 2004.

The Directors expect that overseas sales in the second half of 2004 will increase driven by the Christmas market. The Directors are cautiously optimistic to the results for the second half of the year. The Group has adopted certain measures to enhance its profitability for the second half of the year. Firstly, the Group will focus on the research and development for a more diversified portfolio of products, so as to cope with the ever-changing markets and demands of the customers. Secondly, more efforts will be made on cost-control in order to provide quality products at low costs to its customers, thereby enhancing the sales and competitiveness of the Group's products. At the same time, efforts will be devoted to invest in products with higher added values. It is expected that the business in the second half of the year will expand while the profit will meet expectation. The Directors are confident towards its prospects and performance in future.

DIRECTORS' INTERESTS

As at 30th June, 2004, the Directors are not aware of any disclosure of beneficial interests or short positions of Directors or chief executive in any shares or underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")) which should be made to the Company under provisions of Divisions 7 and 8 of Part XV of the SFO as the Company was not listed on the Stock Exchange on that date.

On 5th August, 2004, after the completion of the listing of the Company on the Stock Exchange on 15th July, 2004 (the "Share Offer") and after the expiry of the stabilization period which ended on 5th August, 2004, the beneficial interests and short positions of the directors and supervisors in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under 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 Companies, were as follows:

(a) Long positions in the Shares, underlying shares and debentures of the Company:

| Name of Director/ Chief Executive | Capacity | Personal interest (Note 1) | Number of Shares | | Total interests | Percentage of shareholding in the total issued share capital |
|--------------------------------------|------------------|----------------------------------|--------------------|-----------------------|--------------------|--|
| | | | Family interest | Corporate interest | | |
| Zhang Shu Yang (Note 2) | Beneficial owner | — | — | 249,000,000 (L) | 249,000,000 (L) | 62.25% |
| Tung Chi Wai, Terrence (Note 3) | Beneficial owner | — | — | 6,000,000 (L) | 6,000,000 (L) | 1.50% |

Notes:

- Details of the interests of director and chief executive of the Company in the underlying shares of equity derivatives in respect of options granted to them by the Company are stated in the "Share Option" section below.
- The interest in 249,000,000 Shares are deemed corporate interest through Z-Idea Company Limited which is wholly owned by Zhang Shu Yang.
- The interest in 6,000,000 Shares are deemed corporate interest through T-Square Company Limited which is wholly owned by Tung Chi Wai, Terrence.
- The letter "L" denotes a long position.

(b) Long positions in the Shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO):

| Name of Director/ Chief Executive | Name of associated corporation | Nature of interest | Number of share directly and indirectly held | Percentage of shareholding in the total issued share capital |
|--------------------------------------|-----------------------------------|-----------------------|--|--|
| | | | | |
| Zhang Shu Yang | Z-Idea Company Limited | Corporate | 38,000,000 | 100% |

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, the Directors are not aware of any disclosure of beneficial interests or short positions in any shares or underlying shares of the Company which should be made to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO as the Company was not listed on the Stock Exchange on that date.

On 5th August, 2004, after the completion of the Share Offer and after the expiry of the stabilization period which ended on 5th August, 2004, the following persons (who are not Directors) have beneficial interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of 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% |
| Good Day International Limited (<i>Note 2</i>) | Ordinary shares | 45,000,000 (L) | 11.25% |
| Ms. Wu Li Xia (<i>Note 3</i>) | Ordinary shares | 45,000,000 (L) | 11.25% |
| Chen Huanxin (陳煥新) | Ordinary shares | 20,000,000 (L) | 5% |
| Zhang Guojing (章國經) | Ordinary shares | 20,000,000 (L) | 5% |

Notes:

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

SHARE OPTION SCHEMES

On 22nd June, 2004, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme") were approved and adopted by the shareholders of the Company, under which, the Directors of the Company may, at their sole discretion, grant to any employee of the Group (including any executive directors of the Company) options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Pre-IPO Share Option Scheme and the 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 15th July, 2004, the date of the listing of the Company's shares on the Stock Exchange.

(a) **Pre-IPO Share Option Scheme**

As at 30th June, 2004, options to subscribe for 35,000,000 shares in aggregate at an exercise price equals to the offer price of the Share Offer (HK\$1.068) have been granted by the Company to a total of 91 employees of the Company. Particulars of the options which have been granted to (i) all Directors; and (ii) continuous contract staff of the Group under the Pre-IPO Share Option Scheme are set out below:

| Grantee | Date of grant | Exercise price (HK\$) | Number of option shares | | | Balance as at 30th June, 2004 | Exercisable period |
|--|---------------|--------------------------|---|--|--|-------------------------------|-----------------------------------|
| | | | Granted during the six months ended 30th June, 2004 | Exercise during the six months ended 30th June, 2004 | Canceled/ lapsed during the six months ended 30th June, 2004 | | |
| | | | | | | | |
| (i) Directors | | | | | | | |
| Zhang Shu Yang (Executive Director) | 25/06/2004 | 1.068 | 2,300,000 | — | — | 2,300,000 | 25/06/2004-24/06/2014 (Note 1) |
| Tung Chi Wai, Terrence (Executive Director) | 25/06/2004 | 1.068 | 1,950,000 | — | — | 1,950,000 | 25/06/2004-24/06/2014 (Note 1) |
| Kazunori Watanabe (Executive Director) | 25/06/2004 | 1.068 | 1,600,000 | — | — | 1,600,000 | 25/06/2004-24/06/2014 (Note 1) |
| Sub-total | | | | | | 5,850,000 | |
| (ii) Other continuous contract employees | | | | | | | |
| Senior management staff | 25/06/2004 | 1.068 | 10,600,000 | — | — | 10,600,000 | 25/06/2004-24/06/2014 (Note 1) |
| Other staff | 25/06/2004 | 1.068 | 18,550,000 | — | — | 18,550,000 | 25/06/2004-24/06/2014 (Note 1) |
| Sub-total | | | | | | 29,150,000 | |

Note:

1. 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% 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).

(b) Share Option Scheme

As at 30th June, 2004, no options have been granted under the Share Option Scheme.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the listing of the Company's shares on the Stock Exchange on 15th July, 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries since the listing of the Company's shares on the Stock Exchange on 15th July, 2004.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive Directors. The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial accounts for the Period.

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.

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

Hong Kong, 1st September, 2004

CORPORATE INFORMATION

Registered office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong

Unit 606
6th Floor
Regent Centre
Tower B
63 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

Company secretary

Mr. Pun Wai *ACCA, AHKSA*

Qualified accountant

Mr. Pun Wai *ACCA, AHKSA*

Authorised representatives

Mr. Kazunori Watanabe
Flat F
5th Floor, Celeste Court
No. 10-12 Fung Fai Terrace
Hong Kong

Mr. Tung Chi Wai, Terrence
Flat C1
10th Floor, Wei Chien Court
Wyler Garden
Tokwawan
Kowloon
Hong Kong

Authorised representative

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

Mr. Tung Chi Wai, Terrence
Flat C1
10th Floor, Wei Chien Court
Wyler Garden
Tokwawan
Kowloon
Hong Kong

Mr. Pun Wai
Block B, 5/F
192 Tai Po Road
Kowloon
Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
15th Floor Hutchison House
10 Harcourt Road
Central
Hong Kong

Audit committee

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

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
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

Hang Seng Bank
83 Des Voeux Road Central
Hong Kong

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

Bank of China
1 Garden Road
Hong Kong

DBS (Hong Kong) Limited
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Millennium City
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