



Directors' Report

Our vision, creativity and pursuit of excellence have laid the foundation for our success as a public listed corporation.

Directors' Report

The directors herein present their first report and the audited financial statements of the Company for the period from 30 January 2004 (date of incorporation) to 31 December 2004 and the Group for the year ended 31 December 2004.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 30 January 2004 under the Companies Laws, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to the Group's reorganisation (the "Group Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of the Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 22 June 2004. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto, are set out in notes 1, 16 and 28 to the financial statements and the Company's prospectus dated 30 June 2004 (the "Prospectus").

On 15 July 2004, the Company completed its initial public offering and the shares of the Company were listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 67.

Pursuant to a resolution passed on 19 June 2004 by all shareholders of Mitsumaru (Holdings) Limited, a special dividend in an aggregate amount of HK\$65 million was declared and paid to the shareholders of Mitsumaru (Holdings) Limited.

The Directors have resolved to recommend the payment of a final dividend of HK0.75 cent per share for the year ended 31 December 2004, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 31 May 2005 (the "AGM"). The final dividend will be payable on 15 June 2005 to shareholders whose names appear on the register of members of the Company on 23 May 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2005 to 31 May 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the (i) final dividend which is to be approved at the AGM; and (ii) attending and voting at the AGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 pm on 22 May 2005.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 15 July 2004 (the "Share Offer"), after deduction of related issuance expenses, amounted to approximately HK\$92.5 million (net of issue expenses of approximately HK\$14.3 million). These proceeds were applied by the Group in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK\$18.6 million was used for the expansion and enhancement of the Group's existing colour television ("CTV") business to cover CTVs of larger size (including but not limited to be used as the working capital for the purchases of the required key components for CTVs of larger size);
- approximately HK\$3.5 million was used for the research and development in respect of the provision of solutions for new products such as high-definition televisions, liquid crystal display televisions, plasma display panel televisions, vehicle audio-visual products and other digital electronic products;
- approximately HK\$7 million was used for the acquisition of new facilities for the Group's assembling plant at Wuhu, Mainland China;
- approximately HK\$14 million was used for the construction of a new office building, a research and development centre and a warehouse in Shanghai, Mainland China;
- approximately HK\$11.2 million was used for repayment of a bank loan for the construction of the new office building, the research and development centre and the warehouse in Shanghai, Mainland China;
- approximately HK\$1.3 million was used for the expansion of the sales and marketing network, including the setting up of additional sales offices in Europe; and
- approximately HK\$10.3 million was applied as the general working capital of the Group; and
- the remaining of HK\$26.6 million are deposited in licensed banks in Hong Kong.

SUMMARY FINANCIAL INFORMATION

A summary of the published consolidated/combined results and consolidated/combined assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the Prospectus and the consolidated profit and loss account and balance sheet as set out on pages 27 and 28 of the financial statements, is set out in the section under "Financial Summary" on page 68 of the annual report. The summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital and share options during the period, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

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

As at 31 December, 2004, so far as the directors are aware, the following persons (who are not directors) has interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to in all circumstances at general meetings of any of other members of the Group:

Name of substantial shareholders	Class of shares	Number of shares held	Percentage of shareholding in the total issued share capital
Z-Idea Company Limited (Note 1)	Ordinary shares	249,000,000 (L)	62.25
Good Day International Limited (Note 2)	Ordinary shares	45,000,000 (L)	11.25
Ms. Wu Lixia (Note 3)	Ordinary shares	45,000,000 (L)	11.25
Mr. Chen Huanxin (陳煥新)	Ordinary shares	20,000,000 (L)	5
Mr. Zhang Guojing (章國經)	Ordinary shares	20,000,000 (L)	5

Note:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, an executive Director of the Company.
2. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng, the minority son of Mr. Zhang Shuyang, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.
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 22 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 15 July 2004, being the date of the listing of the Company's shares on the Stock Exchange.

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(A) PRE-IPO SHARE OPTION SCHEME

As at 31 December 2004, options to subscribe for 35,000,000 shares in aggregate at an exercise price equips 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 31 December 2004	Exercisable period
			Granted during the year ended 31 December 2004	Exercise during the year ended 31 December 2004	Cancelled/lapsed during the year ended 31 December 2004		
(i) Directors							
Zhang Shuyang (Executive Director)	25/06/2004	1.068	2,300,000	—	—	2,300,000	25/06/2004-24/06/2014 (Note)
Tung Chi Wai, Terrence (Executive Director)	25/06/2004	1.068	1,950,000	—	—	1,950,000	25/06/2004-24/06/2014 (Note)
Kazunori Watanabe (Executive Director)	25/06/2004	1.068	1,600,000	—	—	1,600,000	25/06/2004-24/06/2014 (Note)
						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)
Other staff	25/06/2004	1.068	18,550,000	—	—	18,550,000	25/06/2004-24/06/2014 (Note)
						Sub-total	29,150,000

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Note:

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).

(B) SHARE OPTION SCHEME

As at 31 December 2004, no options has been granted under the Share Option Scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law (2004 Revision) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year/period are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK\$152,587,000. The distributable reserves include the Company's share premium and contributed surplus, in a total of HK\$151,495,000 as at 31 December 2004, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's 5 largest customers accounted for 50.3% of the total sales for the year and sales to the largest customer included therein amounted to 13.5%. Purchases from the Group's 5 largest suppliers accounted for 30.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19.9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers.

DIRECTORS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

Mr. Zhang Shuyang	(appointed on 13 February 2004)
Mr. Tung Chi Wai, Terrence	(appointed on 13 February 2004)
Mr. Kazunori Watanabe	(appointed on 19 June 2004)
Mr. Neil T. Cox	(appointed and resigned on 13 February 2004)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Ede Hao Xi, Ronald	(appointed on 19 June 2004)
Mr. Ts'o Shun, Roy	(appointed on 19 June 2004)
Mr. Li Yueh Chen	(appointed on 19 June 2004)

In accordance with articles 86(2) and 87(1) of the Company's articles of association, Mr. Tung Chi Wai, Terrence, and Mr. Ts'o Shun, Roy will retire by rotation and, being eligible, will offer themselves for re-election at the AGM. The independent non-executive directors are appointed for a period of two years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company on 22 June 2004 for an indefinite term subject to termination by either party giving not less than three months' written notice. They may receive discretionary bonuses to be determined by the board of directors but the amount in aggregate will not exceed 5% of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items) in respect of that financial year of the Group.

Each of the independent non-executive directors has entered into a letter of appointment with the Company on 19 June 2004 for a term of two years commencing from the appointment date of an annual fee ranging from HK\$120,000 to HK\$150,000.

Apart from the foregoing, no director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 18 and 25 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed herein, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouse or minor children to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the directors had any interest in a business which competes or may compete with the businesses of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

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

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Notes:

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

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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	Numbers 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 at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements and the paragraph headed "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTION

During the year, the Group had a connected transaction with connected parties and the details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules and are set out in note 25 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which remained effective as at 31 December 2004 since the listing of the Company's shares on the Stock Exchange on 15 July 2004.

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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 of directors. The audit committee comprises the three independent non-executive directors of the Company.

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2004.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the AGM.

On Behalf of the Board

Zhang Shuyang

Chairman

Hong Kong

27 April 2005