1. GROUP REORGANISATION AND BASIS OF PRESENTATION AND CONSOLIDATION

GROUP REORGANISATION

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

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 July 2004, the Company became the holding company of the companies now comprising the Group on 22 June 2004. This was accomplished by acquiring the entire issued share capital of Mitsumaru East Kit (Group) Limited (the "Mitsumaru EK Group"), which is, as at the date of this report, the intermediate holding company of those subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for (i) the crediting as fully paid at par the 10 nil paid shares in the issued share capital of the Company held by Z-Idea Company Limited ("Z-Idea"), Good Day International Limited ("Good Day"), and T-Square Company Limited ("T-Square"); and (ii) the allotment and issue by the Company an aggregate of 99,990 shares of HK$0.10 each, credited as fully paid, to Z-Idea, Good Day and T-Square in proportion to their respective shareholding in the Mitsumaru EK Group.

Further details of the Group Reorganisation are set out in note 28 to the financial statements and in the Company's prospectus dated 30 June 2004.

On 15 July 2004, the Company completed its initial public offering (the "IPO") and the shares of the Company were listed on the Main Board of the Stock Exchange on the same date.

BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the completion of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of its acquisition of subsidiaries on 22 June 2004. Accordingly, the consolidated financial statements of the Group for the years ended 31 December 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 January 2003 or since their respective dates of incorporation, where this is a shorter period. The comparative combined balance sheet as at 31 December 2003 has been prepared on the basis as if the Group had been in existence at that date.

In the opinion of the directors, the consolidated financial statements for the years ended 31 December 2003 and 2004 prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

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

2. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.

The principal place of business of the Company is located at Unit 606, 6th Floor, Regent Centre, Tower B, 63 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.

The principal activities of the Company during the period is investment holding. There were no significant changes in the nature of the Group's principal activities during the year. The principal activities of the subsidiaries of the Company are the design of the chassis of colour televisions, the trading of related components, and the assembling of colour television sets.

In the opinion of the Company's directors, the ultimate holding company of the Company is Z-Idea, which is incorporated in the British Virgin Islands ("BVI").

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

SUBSIDIARIES

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

JOINT VENTURE COMPANIES

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FIXED ASSETS AND DEPRECIATION

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	over the lease terms
Buildings	2% - 18%
Plant and machinery	9% - 20%
Motor vehicles	9% - 30%
Office equipment	9% - 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

LEASED ASSETS

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

OTHER INVESTMENT

Other investment is a non-trading investment in unlisted equity securities which is stated at cost less any impairment losses.

When a decline in the fair value of the investment below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

SHORT TERM INVESTMENTS

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) subsidy income, when the right to receive payment has been established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

RESEARCH AND DEVELOPMENT COSTS

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

A special dividend is simultaneously proposed and declared, because Mitsumaru (Holdings) Limited's ("Mitsumaru (Holdings)") memorandum and articles of association grant the directors the authority to declare such special dividend. Consequently, a special dividend is recognised immediately as a liability when it is proposed and declared.

EMPLOYEE BENEFITS

Employment Ordinance long term service payments

Certain of the Group's employees have completed the required number of years of service to the Company in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situations will result in a material future outflow of resources from the Group.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, namely, East Kit Electronic (China) Co., Ltd. ("East Kit (China)"), East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)"), Mitsumaru Electrical (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)"), and Kaern GmbH, which operate in Mainland China or in Germany are required to participate in a central pension scheme (the "CPB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a percentage ranging from 20.6% to 22.5% of their payroll costs to the CPB Scheme. The only obligation of the Group with respect to the CPB Scheme is the ongoing required contributions under the CPB Scheme. The contributions under the CPB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the CPB Scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

EMPLOYEE BENEFITS *(continued)*

Share option schemes

The Company operates two share option schemes (the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the Schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

5. SEGMENT INFORMATION

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

(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 turnover. Moreover, the segment results and segment assets for the assembling of colour 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, 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 the 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.

5. SEGMENT INFORMATION *(continued)*

(ii) GEOGRAPHICAL SEGMENTS *(continued)*

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

Group

	Segment revenue Sales to external customers	
	2004 HK$'000	2003 HK$'000
Mainland China	380,991	307,091
Asia (other than Mainland China)	113,656	183,230
Europe	107,790	61,412
Australia	3,650	42,964
Others	12,326	29,360
	618,413	624,057

	Segment assets	
	2004 HK$'000	2003 HK$'000
Hong Kong	170,891	178,660
Mainland China	400,018	302,824
Europe	5,911	1,531
	576,820	483,015

5. SEGMENT INFORMATION *(continued)*

(ii) GEOGRAPHICAL SEGMENTS *(continued)*

	Segment capital expenditure	
	2004	2003
	HK$'000	HK$'000
Hong Kong	1,210	1,184
Mainland China	39,350	13,663
Europe	—	92
	40,560	14,939

6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value or contracted value of goods sold upon delivery of goods, after allowances for returns and trade discounts and business/sales tax where applicable.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2004	2003
	HK$'000	HK$'000
Turnover		
Sale of goods	618,413	624,057
Other revenue and gains		
Interest income	948	1,004
Rental income	81	76
Subsidy income	167	2,448
Gain on disposal of fixed assets	—	46
Sundry income	302	172
	1,498	3,746

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold		530,417	498,342
Auditors' remuneration		950	230
Staff costs (including directors' remuneration - note 9):			
Wages and salaries		24,703	15,939
Pension scheme contributions		2,951	2,221
		27,654	18,160
Depreciation	15	3,634	3,074
Write-off of fixed assets	15	385	—
Provision for bad and doubtful debts		3,968	—
Loss on disposal of other investment	18	601	—
Impairment of short term investments		189	182
Minimum lease payments under operating leases in respect of land and buildings		726	626
Exchange losses		390	712
Provision against/(reversal of provision against) slow-moving inventories		(347)	4,010
Research and development costs		4,207	4,648

8. FINANCE COSTS

	Group	
	2004 HK$'000	2003 HK$'000
Interest on bank borrowings	4,502	3,578
Interest on finance leases	4	3
	4,506	3,581

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Fees	195	—
Other emoluments:		
Salaries, allowances and benefits in kind	5,497	1,339
Bonuses	500	—
Pension scheme contributions	12	12
	6,009	1,351
	6,204	1,351

Fees include HK$195,000 (2003: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	3	2
HK$1,500,001 - HK$2,000,000	1	—
HK$2,000,001 - HK$2,500,000	2	—
	6	2

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted share options in respect of their services to the Group under the pre-IPO share option scheme of the Company, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: two) directors, details of whose remuneration are disclosed in note 9 above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	1,903	578
Bonuses	—	239
Pension scheme contributions	221	38
	2,124	855

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil to HK$1,000,000	—	3
HK$1,000,001 - HK$1,500,000	2	—
	2	3

During the year, no share options were granted under the pre-IPO share option scheme to the two non-directors, highest paid employees in respect of their services to the Group.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Tax 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 operating in Mainland China were granted a 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.

11. TAX *(continued)*

The tax concession granted to East Kit (China) expired prior to 1 January 2001. Starting from 1 January 2002, upon obtaining an approval for additional concession, East Kit (China) was granted a 50% exemption from the national portion and a full exemption from the local portion of CIT for three years as it qualified as a "hi-tech company" pursuant to the tax regulations in Mainland China. The CIT rate applied to East Kit (China) for the year was 12% (2003: 12%).

East Kit (Shanghai) was exempted from CIT for the year ended 31 December 2001 and was granted a 50% exemption from CIT for each of the following three years starting from 1 January 2002. The CIT rate applied to East Kit (Shanghai) for the year was 13.5% (2003: 13.5%).

For the year ended 31 December 2004, Mitsumaru (Wuhu) reported its first year's profit since establishment. The tax concession granted to Mitsumaru (Wuhu) then commenced on 1 January 2004 and this was the first year it was exempted from CIT.

	2004 HK$'000	2003 HK$'000
Group:		
Current year provision:		
Hong Kong	—	3,572
Mainland China	4,674	6,919
	4,674	10,491
Tax refunded/refundable	(7,395)	(4,004)
Deferred - note 27	310	72
Total tax charge/(credit) for the year	(2,411)	6,559

During the year, the Group decided to increase the capital contribution to East Kit (China) and East Kit (Shanghai) by capitalising the retained profits and the statutory surplus reserve of the respective companies to paid-up capital. In accordance with the tax regulations in Mainland China, CIT previously paid on retained profits and statutory surplus reserve being capitalised can be refunded. The refund of HK$7,395,000 (2003: HK$4,004,000) represents refunds arising from the capitalisation of the retained profits and the statutory surplus reserve. At 31 December 2004, the tax refund receivable amounted to HK$7,377,000 (2003: HK$3,995,000).

11. TAX *(continued)*

A reconciliation of the tax expense/(credit) applicable to profit before tax using the statutory rate to the tax expense/(credit) at the effective tax rate is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Profit before tax	7,500	70,941
Tax at the statutory tax rate of 17.5% (2003: 17.5%)	1,313	12,415
Effect on opening deferred tax of increase in rates	1,146	—
Different tax rates applicable to subsidiaries operating in Mainland China	(1,400)	(2,308)
Expenses not deductible for tax	2,980	518
Tax losses not recognised	945	(62)
Tax refunded/refundable	(7,395)	(4,004)
Tax charge/(credit) at the Group's effective rate	(2,411)	6,559

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 30 January 2004 (date of incorporation) to 31 December 2004 was approximately HK$4,092,000 (2003: Nil) (note 30(b)).

13. DIVIDENDS

	2004 HK$'000	2003 HK$'000
Special (note)	65,000	—
Proposed final - HK 0.75 cent (2003: Nil) per ordinary share	3,000	—
	68,000	—

Note: Pursuant to a resolution passed by shareholders of Mitsumaru (Holdings) on 19 June 2004, a special dividend of HK$65 million was proposed and declared. Such special dividend was paid out to its shareholders whose names appeared on the register of members of Mitsumaru (Holdings) on the same date, and was used to offset against the amounts due from directors on 19 June 2004 (note 22). The rates of the dividend and the number of shares ranking for this dividend are not presented as the directors consider that such information is not meaningful for the purpose of these financial statements.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting held on 31 May 2005.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK$10,007,000 (2003: HK$64,732,000), and the pro forma weighted average of 346,448,087 (2003: 300,000,000) ordinary shares deemed to have been issued and issuable during the year, on the assumption that the Group Reorganisation and the capitalisation issue of 299,900,000 shares of the Company had been effective on 1 January 2003.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 of approximately HK$10,007,000. The weighted average number of ordinary shares used in the calculation is 346,448,087 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 721,834 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

A diluted earnings per share amount for the year ended 31 December 2003 has not been disclosed as no dilutive potential ordinary shares existed during that year.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:						
At beginning of year	27,864	3,585	7,655	9,036	—	48,140
Additions	8,479	4,738	1,836	1,142	31,485	47,680
Write-off	—	—	(533)	—	—	(533)
Exchange realignment	100	19	32	41	—	192
At 31 December 2004	**36,443**	**8,342**	**8,990**	**10,219**	**31,485**	**95,479**
Accumulated depreciation:						
At beginning of year	3,178	1,026	2,278	5,038	—	11,520
Provided during the year	1,056	676	782	1,120	—	3,634
Write-off	—	—	(148)	—	—	(148)
Exchange realignment	8	5	5	24	—	42
At 31 December 2004	**4,242**	**1,707**	**2,917**	**6,182**	**—**	**15,048**
Net book value:						
At 31 December 2004	**32,201**	**6,635**	**6,073**	**4,037**	**31,485**	**80,431**
At 31 December 2003	24,686	2,559	5,377	3,998	—	36,620

The Group's leasehold land and buildings are held under long term leases and are all located outside Hong Kong.

The net book value of assets that are held under finance leases and included in the total amount of fixed assets as at 31 December 2004 amounted to HK$188,000 (2003: HK$328,000).

16. INTERESTS IN SUBSIDIARIES

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	98,949	—
Due from subsidiaries	73,726	—
	172,675	—

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid up share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Mitsumaru (Holdings)	Hong Kong	Ordinary HK$100	—	100	Trading of electronic components and investment holding
		Non-voting deferred HK$5,000,000	—	100	
East Kit (China)*	Mainland China	Paid-up registered US$11,000,000	—	100	Design of the chassis of colour televisions and trading of electronic components
East Kit (Shanghai)*	Mainland China	Paid-up registered US$8,700,000	—	100	Design of the chassis of colour televisions and trading of electronic components

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mitsumaru (Wuhu)*	Mainland China	Paid-up registered US$1,300,000	—	100	Assembling of colour television sets and other electronic components
Kaern GmbH#	Germany	Nominal EUR300,000	—	75	Trading of electronic components
Mitsumaru EK Group	BVI	HK$1	100	—	Investment holding

* These subsidiaries are registered as wholly-foreign owned enterprises under the law of the People's Republic of China.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. LONG TERM DEPOSIT

At 31 December 2003, long term deposit represented a deposit paid for the acquisition of a factory building, together with the land use right, located at No. 48 Yijiang Road Central, Wuhu City, Anhui Province, Mainland China. The acquisition was completed on 18 February 2004 and such amount was transferred to fixed assets during the year ended 31 December 2004.

18. OTHER INVESTMENT

	Group	
	2004	2003
	HK$'000	HK$'000
Unlisted equity investment, at cost	—	3,511

At 31 December 2003, the amount represented the Group's investment in a 32% equity interest in Hangzhou Guoxin Technology Company Limited ("Hangzhou Guoxin"). The directors considered that the Group did not have significant influence in this company. On 18 June 2004, East Kit (China) entered into an agreement with Mr. Zhang Shuyang, the Chairman of the Company, pursuant to which East Kit (China) agreed to transfer its 32% equity interest in Hangzhou Guoxin to Mr. Zhang Shuyang at a consideration of RMB3,200,000, which was determined by the proportionate face value of the registered capital of Hangzhou Guoxin (the "Disposal"). At 31 December 2004, the Disposal was completed and the Group recorded a loss on disposal of other investment of HK$601,000 (note 7).

19. RESTRICTED TIME DEPOSITS

At the balance sheet date, pursuant to agreements entered into between the Group and a supplier dated 30 December 1999 and 28 June 2002, the Group agreed to use certain of its bank deposits as security to guarantee the Group's performance and settlement of all of its outstanding obligations and liabilities due to the supplier in connection with the supply of electronic components.

20. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	50,478	26,188
Finished goods	31,343	34,156
	81,821	60,344

At 31 December 2004, no inventories were carried at net realisable value as at the balance sheet date (2003: Nil).

21. ACCOUNTS RECEIVABLE

An aged analysis of the net accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 90 days	171,090	137,698
91 days to 180 days	33,681	14,748
181 days to one year	5,083	9,077
Over one year	4,906	1,687
	214,760	163,210

A defined credit policy is maintained by the Group. The general credit terms range 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 minimise credit risk. Overdue balances are regularly reviewed by senior management of the Group.

22. DUE FROM DIRECTORS

Particulars of amounts due from directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance were as follows:

Group

Name of director	31 December 2004	Maximum amounts outstanding during the year	1 January 2004
	HK$'000	HK$'000	HK$'000
Mr. Zhang Shuyang	—	35,438	28,454
Mr. Tung Chi Wai, Terrence	—	14,151	14,151
Mr. Kazunori Watanabe	—	158	119
	—		42,724

The amounts due in the prior year and during the year were unsecured, interest-free and had no fixed terms of repayment.

The amounts due were fully settled on 19 June 2004 by means of a special dividend (note 13).

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	Group 2004 HK$'000	Group 2003 HK$'000	Company 2004 HK$'000	Company 2003 HK$'000
Cash and bank balances		**57,393**	49,185	**26,535**	—
Time deposits		**35,604**	37,608	**—**	—
		92,997	86,793	**26,535**	—
Less: Pledged bank balances for banking facilities	25	**(4,050)**	—	**—**	—
Pledged time deposits for banking facilities	25	**(35,604)**	(37,608)	**—**	—
Cash and cash equivalents		**53,343**	49,185	**26,535**	—

At 31 December 2004, the cash and bank balances of the Group that are denominated in Renminbi ("RMB") amounted to HK$17,993,000 (2003: HK$14,509,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable at the balance sheet date, based on invoice date, is as follows:

	Group 2004 HK$'000	Group 2003 HK$'000
Within 180 days	**277,183**	213,304
181 days to one year	**7,314**	14,391
One to two years	**4,336**	5,056
Over two years	**5,884**	6,309
	294,717	239,060

25. INTEREST-BEARING BANK BORROWINGS

	Group 2004 HK$'000	Group 2003 HK$'000
Bank overdrafts, secured	1,093	—
Bank borrowings:		
Secured	1,455	20,060
Unsecured	7,547	—
Trust receipt loans	54,856	29,637
	64,951	49,697
Portion due within one year classified as current liabilities	(64,951)	(44,874)
Long term portion	—	4,823
The maturity of the long term portion of bank borrowings is as follows:		
Over one year but not exceeding two years	—	362
Over two years but not exceeding five years	—	1,146
Over five years	—	3,315
	—	4,823

At 31 December 2004, the bank borrowings, together with the banking facilities, were secured by the followings:

(a) bank balances and time deposits of the Group amounted to HK$39,654,000 (note 23);

(b) a legal charge on a property held by a director of the Company which was released in January 2005;

(c) corporate guarantees executed by the Company; and

(d) a personal guarantee given by the directors of the Company [@].

At 31 December 2003, the bank borrowings, together with the banking facilities, were secured by the followings:

(a) time deposits of the Group amounted to HK$37,608,000 (note 23);

(b) a legal charge on a property held by a director of Mitsumaru (Holdings); and

(c) personal guarantees given by the directors of Mitsumaru (Holdings).

[@] The above personal guarantee constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

26. FINANCE LEASE PAYABLES

The Group leases certain office equipment. These leases are classified as finance leases.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were set out below:

Group	Minimum lease payments 2004 HK$'000	Minimum lease payments 2003 HK$'000	Present value of minimum lease payments 2004 HK$'000	Present value of minimum lease payments 2003 HK$'000
Amounts payable:				
Within one year	97	108	96	106
In the second to fifth years, inclusive	—	104	—	103
Total minimum finance lease payments	97	212	96	209
Future finance charges	(1)	(3)		
Total net finance lease payables	96	209		
Portion classified as current liabilities	(96)	(106)		
Long term portion	—	103		

27. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year is as follows:

Group

Deferred tax assets

	Provision for bad and doubtful debts HK$'000
At 1 January 2003, 31 December 2003 and 1 January 2004	21,987
Exchange realignment	114
At 31 December 2004	22,101

27. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of HK$5,399,000 (2003: Nil). In the prior year, the Group has tax losses arising in Mainland China of HK$825,000. According to the relevant tax regulations, tax losses incurred in a particular year can be carried forward to offset against future taxable profits for a period of five years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time, or it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Group

Deferred tax liabilities

	Uninvoiced sales HK$'000
At 1 January 2003	840
Deferred tax charged to the consolidated profit and loss account during the year - note 11	72
At 31 December 2003 and 1 January 2004	912
Deferred tax charged to the consolidated profit and loss account during the year, including a charge of HK$1,146,000 due to the effect of a change in tax rates - note 11	310
Exchange realignment	4
At 31 December 2004	1,226

28. SHARE CAPITAL

SHARES

	2004 HK$'000	2003 HK$'000
Authorised:		
1,000,000,000 (2003: Nil) ordinary shares of HK$0.1 each	100,000	—
Issued and fully paid:		
400,000,000 (2003: Nil) ordinary shares of HK$0.1 each	40,000	—

28. SHARE CAPITAL *(continued)*

Changes in authorised capital and issued share capital of the Company took place during the period from 30 January 2004 (the date of incorporation) to 31 December 2004 are summarised as follows:

	Notes	Number of shares	HK$'000
Authorised:			
On incorporation and after share consolidation	(a)	3,800,000	380
Increase in authorised share capital	(c)	996,200,000	99,620
At 31 December 2004		1,000,000,000	100,000

	Notes	Number of shares	HK$'000
Issued:			
On incorporation and after share consolidation	(a)	10	—
Shares issued as consideration for the acquisition of the entire issued capital of the Mitsumaru EK Group, issue and allotment of ordinary shares of HK$0.10 each, credited as fully paid	(b)	99,990	10
Capitalisation issue credited as fully paid, conditional upon the new placing and issue of shares	(d)	299,900,000	—
Pro forma issued share capital as at 31 December 2003 and 1 January 2004		300,000,000	10
Capitalisation issue through the share premium account as set out above	(d)	—	29,990
Issue of shares	(e)	100,000,000	10,000
As at 31 December 2004		400,000,000	40,000

28. SHARE CAPITAL *(continued)*

During the period from 30 January 2004 (date of incorporation) to 31 December 2004, the movements in the share capital of the Company were as follows:

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

Pursuant to a written resolution passed by all shareholders of the Company on 19 June 2004, 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 authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each and 10 shares were issued at a price of HK$0.10 each.

(b) Pursuant to a written resolution of the shareholders of the Company passed on 22 June 2004, the Company acquired the entire issued capital of the Mitsumaru EK Group from Z-Idea, Good Day and T-Square. In consideration of such acquisition, the Company allotted and issued, and credited as fully paid at par, 82,991.7 shares, 14,998.5 shares and 1,999.8 shares to Z-Idea, Good Day, and T-Square, respectively, and credited as fully paid at par the 10 nil paid shares in the issued share capital of the Company.

(c) Pursuant to a written resolution passed at an extraordinary general meeting of the Company on 22 June 2004, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of 996,200,000 additional shares of HK$0.1 each, ranking pari passu in all respects with the existing issued share capital of the Company.

(d) On the same day, the directors were authorised to capitalise and apply the amount of HK$29,900,000 from an amount standing to the credit of the share premium account as issued capital to pay in full at par 299,900,000 ordinary shares for allotment and issue in proportion to their then respective shareholding in the Company, namely, as to 248,917,000 shares to Z-Idea, 44,985,000 shares to Good Day and 5,998,000 shares to T-Square. The capitalisation issue became unconditional upon the placing and the public offer were completed on 15 July 2004.

(e) On 15 July 2004, 100,000,000 ordinary shares of HK$0.1 each were issued at an issue price of HK$1.068 each for a total cash consideration of HK$106,800,000 through an initial public offering by way of placing and public offer. Share issue expenses of HK$14,253,000 were incurred in connection with the Company's initial public offering and were charged to the share premium account (note 30(b)).

SHARE OPTIONS

Details of the Company's share option schemes and the share options issued under the Schemes are included in note 29 to the financial statements.

29. 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, or to any of their associates, 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, or to any of their associates, 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 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, if 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.

At 31 December 2004 and up to the date of approval of these financial statements, no share options have been granted under the Scheme.

At the date of this annual report, 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.

29. SHARE OPTION SCHEMES *(continued)*

THE PRE-IPO SCHEME

The purpose and the principal terms of the Pre-IPO Scheme, approved and adopted by the Company's shareholders on 22 June 2004, are substantially the same as 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 this annual report, the total number of shares available for issue under the Pre-IPO Scheme is 35,000,000 shares, representing 8.75% of the total issued share capital of the Company on that date.

At 31 December 2004, options to subscribe for 35,000,000 shares at an exercise price of HK$1.068 have been 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.

29. SHARE OPTION SCHEMES *(continued)*

THE PRE-IPO SCHEME *(continued)*

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

Name or category of participant	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 31 December 2004	Date of grant of options	Exercisable period*	Exercise price of options HK$
Directors							
Mr. Zhang Shuyang	2,300,000	—	—	2,300,000	25 June 2004	25 June 2004- 24 June 2014	1.068
Mr. Tung Chi Wai, Terrence	1,950,000	—	—	1,950,000	25 June 2004	25 June 2004- 24 June 2014	1.068
Mr. 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	29,150,000	—	—	29,150,000	25 June 2004	25 June 2004- 24 June 2014	1.068
	35,000,000	—	—	35,000,000			

* 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 an 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).

30. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 29 of the 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 set out in note 1 to the 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.

For the year ended 31 December 2004, 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 (China) and East Kit (Shanghai) in 2003.

30. RESERVES *(continued)*

(b) COMPANY

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profit HK$'000	Total HK$'000
Shares issued as consideration for the acquisition of the entire issued capital of the Mitsumaru EK Group		—	98,938	—	98,938
Capitalisation issue through the share premium account	28	(29,990)	—	—	(29,990)
Issue of shares	28	96,800	—	—	96,800
Share issue expenses	28	(14,253)	—	—	(14,253)
Net profit for the period		—	—	4,092	4,092
Proposed final dividend	13	—	—	(3,000)	(3,000)
At 31 December 2004		52,557	98,938	1,092	152,587

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation referred to in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2004 Revision) of the Cayman Islands, the Company's share premium account and contributed surplus may be distributed to the shareholders of the Company, 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.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group had the following major non-cash transactions during the current year and the prior year:

(i) During the year, a long term deposit paid for the acquisition of a factory building and the land use right was transferred to fixed assets (note 17).

(ii) During the year ended 31 December 2003, the Group entered into a finance lease arrangement in respect of certain fixed assets with a capital value at the inception of the lease of HK$210,000.

32. CONTINGENT LIABILITIES

CORPORATE GUARANTEES

At 31 December 2004, the total guarantees given to banks in connection with facilities granted to subsidiaries amounted to HK$102,500,000. The banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$62,304,000 (2003: Nil).

LITIGATION

On 28 July 2004, the Company announced that East Kit Industries Limited and East Kit Electronic Manufacturing Co. Ltd. (collectively known as the "Plaintiffs") applied to the court and an interim injunction was granted by the court against the Company on 23 July 2004, which restrained the Company from using the words "East Kit" and the characters "東傑" as part of its name in Hong Kong (the "Interim Injunction").

A consent order (the "Consent Order") was made by the court on 30 July 2004. The Consent Order has released many restrictions previously imposed on the Company by the Interim Injunction. A hearing date of the Plaintiffs' inter partes summons (the "Summons") will be fixed by the Court. The directors of the Company contested the Summons vigorously.

After the hearing of the Summons during the period from 3 November 2004 to 5 November 2004, the Interim Injunction imposed on the Company was successfully discharged on 5 November 2004 and the high court also refused to grant the Plaintiffs' application for a renewal of the Consent Order after hearing of the Plaintiffs' summons. As a result, the Company is no longer subject to any restrictions in using the words "East Kit" or words confusing similar as part of its English company name or characters " 東傑 " or any characters as part of its Chinese company name in Hong Kong, under the Interim Injunction or the Consent Order.

On 5 November 2004, it was ordered by the high court that there would be a speedy trial in respect of the Plaintiffs' allegation that the Company has, among other things, passed off its business as being connected with that of the Plaintiffs (the "Speedy Trial"). The Company will contest such proceedings at the Speedy Trial vigorously.

For the year ended 31 December 2004, the Group incurred legal and professional fees in an aggregate amount of HK$5,856,000 for this litigation and such amount was charged to the consolidated profit and loss account for the year under "Other operating expenses".

33. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements which are negotiated for terms of one to two years. At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2004 HK$'000	2003 HK$'000
Within one year	1,009	1,130
In the second to fifth years, inclusive	664	399
	1,673	1,529

34. COMMITMENTS

	2004 HK$'000	2003 HK$'000
Capital commitments in respect of purchases of fixed assets:		
Authorised, but not contracted for	4,245	19,052
Contracted, but not provided for	6,656	7,250
	10,901	26,302

35. RELATED PARTY TRANSACTIONS

Except for the transactions detailed in notes 18 and 25 to the financial statements, the Group had no other significant related party transactions during the year.

In the prior year, the Group had sales transactions with上海築島電氣有限公司 ("True Island Electrical Company Limited"), a company owned by a director of the Company and a senior executive of the Group as to 90% and 10%, respectively, before they transferred their equity interests therein to independent third parties on 31 July 2003. Sales made to True Island Electrical Company Limited was HK$4,327,000 (equivalent to RMB4,611,000) for the period from 1 January 2003 to 31 July 2003.

In the opinion of the Company's directors, the above-mentioned sales transactions were conducted in the ordinary course of business of the Group and at normal commercial terms.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2005.