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2011 Interim Report



**Mitsumaru East Kit (Holdings) Limited**  
**三丸東傑（控股）有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2358)

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# Corporate Information

## DIRECTORS

### *Executive Directors:*

Mr. Leung Koon Sing

Mr. Tang Chin Wan

### *Independent Non-executive Directors:*

Mr. Kwong Ping Man

Mr. Martin He

Mr. Mu Xiangming

## AUDIT COMMITTEE

Mr. Kwong Ping Man (*Chairman*)

Mr. Martin He

Mr. Mu Xiangming

## NOMINATION COMMITTEE

Mr. Mu Xiangming (*Chairman*)

Mr. Kwong Ping Man

Mr. Martin He

## REMUNERATION COMMITTEE

Mr. Martin He (*Chairman*)

Mr. Kwong Ping Man

Mr. Mu Xiangming

Mr. Leung Koon Sing

## REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 5005-5006, 50th Floor

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

## COMPANY SECRETARY

Mr. Cheng Sik Kong

## AUTHORISED REPRESENTATIVES (for the purposes of the Listing Rules)

Mr. Leung Koon Sing

Mr. Cheng Sik Kong

## AUTHORISED REPRESENTATIVES

(to accept service of process and notices

under Part XI of the Hong Kong Companies Ordinance)

Mr. Leung Koon Sing

Mr. Cheng Sik Kong

## AUDITOR

BDO Limited

Certified Public Accountants

25th Floor

Wing On Centre

111 Connaught Road Central

Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited

P.O. Box 705

Butterfield House

68 Fort Street

George Town

Grand Cayman

Cayman Islands

British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Rooms 1712-16, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank Limited

83 Des Voeux Road Central

Hong Kong

Shanghai Pudong Development Bank

No. 159, Xin Song Road

Shanghai

PRC

Bank of Communications

No. 82, Xin Tan Road

Shanghai

PRC

Bank of Communications

No. 6, Yu Lan Garden, Xin Wu Road

Wuhu City, An Hui Province

PRC

## STOCK CODE

2358

## WEBSITE

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

The directors (the "Directors") of Mitsumaru East Kit (Holdings) Limited (the "Company") are pleased to present unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 (the "Period") together with the comparative figures for the corresponding period of 2010.

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

		Unaudited Six months ended 30 June	
	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	4	125,196	60,328
Cost of sales		(121,832)	(60,845)
<b>Gross profit/(loss)</b>		<b>3,364</b>	(517)
Other income and gains	4	13,258	66
Selling and distribution costs		(3,028)	(2,385)
Administrative expenses		(15,651)	(15,068)
Other operating expenses		(1,688)	(623)
Share of loss of an associate		(905)	(2,559)
Finance costs	5	(4,539)	(889)
<b>Loss before income tax</b>	6	<b>(9,189)</b>	(21,975)
Income tax credit	7	188	—
<b>Loss and total comprehensive income for the period</b>		<b>(9,001)</b>	(21,975)
<b>Loss attributable to:</b>			
Owners of the Company		(9,055)	(21,750)
Non-controlling interests		54	(225)
		<b>(9,001)</b>	(21,975)
<b>Total comprehensive income attributable to :</b>			
Owners of the Company		(9,055)	(21,750)
Non-controlling interests		54	(225)
		<b>(9,001)</b>	(21,975)
<b>Loss per share</b>			
Basic and diluted	8	<b>(HK2.3 cents)</b>	(HK5.5 cents)

# Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	70,141	71,750
Investment property		11,406	11,786
Prepaid land premiums		8,031	8,133
Golf club membership		360	360
Interest in associates		1,867	2,772
Available-for-sale investment		225	226
Total non-current assets		92,030	95,027
CURRENT ASSETS			
Inventories		24,721	28,830
Trade and notes receivables	11	34,986	16,329
Prepayments, deposits and other receivables		10,239	7,090
Cash and cash equivalents		31,557	86,250
Total current assets		101,503	138,499
CURRENT LIABILITIES			
Trade and bills payables	12	116,413	152,876
Other payables, accrued expenses and deposits received		27,235	27,082
Entrusted loan	13	11,800	—
Other loans	14	155,579	161,205
Subscription right derivative		4,971	4,691
Tax payable		—	948
Total current liabilities		315,998	346,802
Net current liabilities		(214,495)	(208,303)
Total assets less current liabilities		(122,465)	(113,276)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(6,005)	(6,193)
Total non-current liabilities		(6,005)	(6,193)
Net liabilities		(128,470)	(119,469)
Equity attributable to owners of the Company			
Issued capital	15	40,000	40,000
Reserves	17	(169,298)	(160,243)
Non-controlling interests		(129,298) 828	(120,243) 774
Total deficits		(128,470)	(119,469)

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company											
	Issued capital	Share premium account	Pre-IPO share option reserve	Contributed surplus	Statutory surplus reserve	Expansion reserve	Buildings revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total deficits
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2011 (unaudited)												
At 1 January 2011	40,000	52,557*	4,888*	4,990*	28,419*	701*	20,128*	18,744*	(290,670)*	(120,243)	774	(119,469)
(Loss)/profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	(9,055)	(9,055)	54	(9,001)
Share options lapsed during the period	—	—	(240)	—	—	—	—	—	240	—	—	—
At 30 June 2011	40,000	52,557*	4,648*	4,990*	28,419*	701*	20,128*	18,744*	(299,485)*	(129,298)	828	(128,470)
For the six months ended 30 June 2010 (unaudited)												
At 1 January 2010	40,000	52,557	5,161	4,990	28,419	701	19,761	18,100	(241,194)	(71,505)	1,377	(70,128)
Loss and total comprehensive income for the period	—	—	—	—	—	—	—	—	(21,750)	(21,750)	(225)	(21,975)
Share options lapsed during the period	—	—	(226)	—	—	—	—	—	226	—	—	—
At 30 June 2010	40,000	52,557	4,935	4,990	28,419	701	19,761	18,100	(262,718)	(93,255)	1,152	(92,103)

\* These reserve accounts comprise the consolidated deficit in reserves at HK\$169,298,000 (31 December 2010: HK\$160,243,000) in the condensed consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Unaudited	
	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Net cash outflow from operating activities	(59,236)	(16,265)
Net cash outflow from investing activities	(1,911)	(1,137)
Net cash inflow from financing activities	6,454	16,159
Net decrease in cash and cash equivalents	(54,693)	(1,243)
Cash and cash equivalents at beginning of the period	86,250	4,943
Cash and cash equivalents at end of the period	31,557	3,700

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2011 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

These condensed financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Adoption of new and revised HKFRSs — effective 1 January 2011

In the current interim period, the Group have applied, for the first time, the following new or revised standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's accounting periods beginning on 1 January 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 34 (Amendment)	Interim Financial Reporting
HK (IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new HKFRSs has no significant impact on the Group's Interim Financial Statements.



# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) New and revised HKFRSs that have been issued but are not yet effective

The following new and revised HKFRSs, potentially relevant to the Group's operations, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosure — Transfers of Financial Assets <sup>1</sup>
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets <sup>2</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>4</sup>
HKFRS 27 (as revised in 2011)	Separate Financial Statements <sup>4</sup>
HKFRS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>4</sup>
Amendments to HKAS 1 (Revised)	Presentation of financial statements – Presentation of item of other comprehensive income <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those on non-trade equity investments, on which the entity will have a choice to recognise gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs, which have been issued but are not yet effective for the year ending 31 December 2011, on the Group's operations.

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

### Reportable segments

The Group has three reportable segments. The segments are managed separately as each business segment offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Design and assembly — the design of the chassis of colour televisions, assembling of colour televisions and the trading of related components;
- Assembly — Assembling of CRT colour televisions and the trading of related components; and
- Trading — Trading of components related to colour televisions.

The revenue and profit/(loss) generated by each of the Group's operating segments and segment assets are summarised as follows:

Six months ended 30 June 2011	Design and assembly HK\$'000	Assembly HK\$'000	Trading HK\$'000	Total HK\$'000
Reportable segment revenue	89,881	4,649	62,192	156,722
Inter-segment revenue	(41)	(8)	(31,477)	(31,526)
Revenue from external customers	89,840	4,641	30,715	125,196
Reportable segment profit/(loss)	2,983	(2,396)	4	591
Reportable segment assets	92,339	35,307	18,355	146,001

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 3. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2010	Design and assembly HK\$'000	Assembly HK\$'000	Trading HK\$'000	Total HK\$'000
Reportable segment revenue	18,702	19,262	23,678	61,642
Inter-segment revenue	(1,261)	(46)	(7)	(1,314)
Revenue from external customers	17,441	19,216	23,671	60,328
Reportable segment loss	(14,516)	(72)	(2,851)	(17,439)
Reportable segment assets	176,800	28,419	25,211	230,430

The Group's segment profit/(loss) reconciles to the Group's loss before income tax as presented in its condensed financial statements as follows:

	Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
<b>Profit or loss</b>		
Total reporting segment profit/(loss)	591	(17,439)
Unallocated corporate expenses	(5,298)	(4,289)
Unallocated finance costs	(4,482)	(247)
Consolidated loss before income tax	(9,189)	(21,975)

## 4. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold upon delivery of goods, after allowances for returns and trade discounts and business/sales tax where applicable.

An analysis of the Group's other income and gains is as follows:

	Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Bank interest income	6	14
Rental income from investment properties	1,345	—
Gain on settlement of trade payables by inventories	8,740	—
Write-back on waiver of trade payables	2,914	—
Others	253	52
	13,258	66

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Interest on loans wholly repayable within five years		
— Bank loans	—	615
— Entrusted loan	56	—
— Other loans	4,483	274
	4,539	889

## 6. LOSS BEFORE INCOME TAX

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

	Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Cost of inventories sold	115,350	57,730
Depreciation of property, plant and equipment	3,421	6,067
Depreciation of investment property	380	—
Amortisation of prepaid land premiums	102	97
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	6,420	7,452
Pension scheme contributions	1,095	2,178
	7,515	9,630
Fair value change of a subscription right derivative	280	—
Foreign exchange loss/(gain), net	961	(619)

## 7. INCOME TAX CREDIT

No provision for income tax has been made in the Interim Financial Statements as the Group has sustained tax losses for the Period in both Hong Kong and the People's Republic of China ("PRC").

The rate of corporate income tax ("CIT") of subsidiaries operating in the PRC is at the standard rate of 25% except for two subsidiaries, East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)") and East Kit Electronic (China) Co., Ltd. ("East Kit (China)"), which were granted a partial exemption from both the national and local portion of CIT for three years from 2008, as each of these subsidiaries qualified as an "Advanced Technology Enterprise" pursuant to the tax regulations in the PRC. The CIT rate of both East Kit (Shanghai) and East Kit (China) for the Period was 15% (2010: 15%).

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 7. INCOME TAX CREDIT (CONTINUED)

The amount of income tax credit represents:

	Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Deferred tax credit	(188)	—

## 8. LOSS PER SHARE

The calculation of basic loss per share for the Period is based on the loss for the Period attributable to owners of the Company of HK\$9,055,000 (2010 : HK\$21,750,000) and 400,000,000 (2010 : 400,000,000) ordinary shares in issue during the Period.

The diluted loss per share for both the six months ended 30 June 2011 and 2010 is the same as the respective basic loss per share as the outstanding options during the both periods have an anti-dilutive effect on the basic earnings per share for these periods.

## 9. DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 June 2011 (2010 : HK\$Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, approximately HK\$1,911,000 (2010 : HK\$1,137,000) was spent on acquisition of property, plant and equipment. There was no disposal of property, plant and equipment during both of the Periods.

## 11. TRADE AND NOTES RECEIVABLES

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Trade and notes receivables	185,282	166,625
Impairment	(150,296)	(150,296)
	34,986	16,329

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

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 11. TRADE AND NOTES RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables (net of impairment loss) as of the end of reporting period, based on the invoice dates, is as follows:

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Within 90 days	30,699	10,613
91 days to 180 days	777	392
181 days to 1 year	275	1,135
Over 1 year	3,235	4,189
	<b>34,986</b>	16,329

## 12. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of reporting period, based on the invoice date, is as follows:

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Within 180 days	18,904	26,673
181 days to 1 year	4,372	2,227
1 to 2 years	5,296	34,875
Over 2 years	87,841	89,101
	<b>116,413</b>	152,876

As at 30 June 2011, two PRC subsidiaries of the Company, East Kit (China) and East Kit (Shanghai), were sued by certain trade creditors for non-payment of outstanding trade balances. Included in the trade and bills payables as at the end of reporting period are trade payables balances of approximately HK\$15,589,000 (31 December 2010: HK\$28,400,000) under litigations.

During the Period, the Group settled trade payables of approximately HK\$12,811,000 in respect of trade payables balances of approximately HK\$28,400,000 under litigations as at 31 December 2010.

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 13. ENTRUSTED LOAN

	Effective interest rate (%)	Maturity	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Entrusted loan — current and secured	5.76	2014	11,800	—

On 26 April 2011, East Kit (China), entered into an Entrusted Loan Agreement with a wholly owned subsidiary of China Water Affairs Group Limited ("CWA"), a company listed on the Stock Exchange, and a commercial bank in the PRC. Pursuant to the agreement the subsidiary of CWA, through the bank, provided an Renminbi ("RMB") entrusted loan facility of approximately HK\$70,800,000 to East Kit (China). As at 30 June 2011, the entrusted loan facility was utilised to the extent of approximately HK\$11,800,000.

As at 30 June 2011, the entrusted loan is repayable on demand as the Entrusted Loan Agreement includes a clause that gives the lender the unconditional right to call the entrusted loan at any time.

The entrusted loan is secured by the Group's buildings, investment property and prepaid land premiums with an aggregate carrying amount of approximately HK\$60,027,000 as at 30 June 2011.

## 14. OTHER LOANS

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Unsecured other loans from:		
<i>Interest bearing</i>		
— controlling beneficial shareholder (Note (a))	300	300
— third parties (Note (b))	35,000	35,500
— a third party (Note (c))	6,726	—
<i>Non-interest bearing</i>		
— controlling beneficial shareholder (Note (d))	59	617
— third parties (Note (c))	—	8,994
	42,085	45,411
Secured other loans from:		
<i>Interest bearing</i>		
— a third party (Note (e))	15,000	15,000
— New Prime (Note (f))	98,494	94,954
— a subsidiary of CWA (Note (g))	—	5,840
	113,494	115,794
	155,579	161,205

All other loans are repayable within one year.

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 14. OTHER LOANS (CONTINUED)

Notes:

- (a) Loans from the controlling beneficial shareholder, Mr. Zhang Shuyang ("Mr. Zhang"), were unsecured with interest charged at 9% per annum and repayable on 13 September 2011.
- (b) Pursuant to promissory notes entered into by the Group with three independent third parties in July and August 2010, the Group promised to pay to these independent third parties a sum of HK\$35,500,000 at a fixed interest rate of 2% per annum. These promissory notes were unsecured and repayable within one year. On maturity dates subsequent to 30 June 2011, the terms of these loans were extended for a further of 3 months and are repayable in October and November 2011.
- (c) The unsecured loans from third parties at 31 December 2010 were non-interest bearing and matured on 31 December 2010, but were subsequently renewed. On 1 January 2011, the maturity date extended to 1 May 2011 with interest charged at a fixed rate of 1% per month. In May 2011, the maturity date of the outstanding loan from a third party was further extended to 30 September 2011.
- (d) These non-interest bearing loans from the controlling beneficial shareholders are unsecured and repayable within one year.
- (e) Loan from a third party, Kingston Finance Limited, is secured by a charge over 224,000,000 shares of the Company beneficially owned by Z-Idea Company Limited, the Company's ultimate holding company, which is wholly and beneficially owned by Mr. Zhang, and a personal guarantee given by Mr. Zhang. The loan was interest bearing at 12% per annum and repayable on 30 June 2011. On maturity date, the loan was extended to 30 September 2011 with interest charged at 8% per annum.
- (f) On 1 December 2010, the Company and New Prime Holdings Limited ("New Prime"), a wholly owned subsidiary of CWA entered into a loan agreement and pursuant to which New Prime agreed to make available to the Company a loan (the "Loan") up to a principal amount of HK\$100,000,000 in cash, in order to finance the operations of the Group. Pursuant to a subscription agreement entered into between the Company and New Prime, the Loan will be applied to settle consideration to be paid by New Prime for subscription of 1,000,000,000 new shares of the Company, upon fulfillment of certain conditions including the resumption of trading of the Company's shares as detailed in the consolidated financial statements for the year ended 31 December 2010.

Pursuant to the Loan agreement, New Prime has an overriding right of repayment on demand of the Loan after six months from the date of draw down, which was 2 June 2011. On 30 June 2011, New Prime agreed to extend the long stop date to 31 December 2011.

Pursuant to a debenture dated 1 December 2010, all assets of the Company and the Group are pledged to New Prime by way of a fixed and floating charge.

Interest expense on the Loan is calculated using the effective interest method by applying the effective interest rate of 7.34% to the liability component of the Loan.

- (g) The loan was fully repaid in April 2011.



# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 15. SHARE CAPITAL

	Unaudited As at 30 June 2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid:		
400,000,000 ordinary shares of HK\$0.1 each	40,000	40,000

### Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 16 to the Interim Financial Statements.

## 16. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 22 June 2004, the Company approved and adopted a share option scheme (the "Scheme") and a pre-IPO share option scheme (the "Pre-IPO Scheme").

The purpose of these two schemes is to provide incentives and/or rewards to any director, consultant, advisor person including full-time or part-time employee of the Company and its subsidiaries, at the sole discretion of the board, for their contribution to, and their continuing efforts to promote the interests of the Company. The schemes became effective on 22 June 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

### The Scheme

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 16. SHARE OPTION SCHEMES (CONTINUED)

### The Scheme (continued)

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.

During the Period, at 30 June 2011 and up to the date of approval of these Interim Financial Statements, no share options have been granted under the Scheme.

### The Pre-IPO Scheme

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

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

On 25 June 2004, options to subscribe for 35,000,000 shares at an exercise price of HK\$1.068 were granted by the Company under the Pre-IPO Scheme to a total of 91 employees of the Company at a consideration of HK\$1.00 per option under the Pre-IPO Scheme.

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

	Unaudited Six months ended 30 June			
	2011		2010	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	1.068	21,300	1.068	22,700
Lapsed during the Period	1.068	(1,230)	1.068	(1,160)
At 30 June	1.068	20,070	1.068	21,540

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 16. SHARE OPTION SCHEMES (CONTINUED)

The Pre-IPO Scheme (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of reporting period are as follows:

### 30 June 2011:

Number of options '000	Exercise price* HK\$ per share	Exercise period
20,070	1.068	25 June 2004 to 24 June 2014

### 31 December 2010:

Number of options '000	Exercise price* HK\$ per share	Exercise period
21,300	1.068	25 June 2004 to 24 June 2014

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

The fair value of the Pre-IPO share option granted on 25 June 2004 was HK\$7,598,000. It was estimated by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, using binomial model taking into account the terms and conditions upon which the options were granted. No share option expense is recognized during the period ended 30 June 2011 (2010: HK\$Nil). The following table lists the inputs to the model used for calculating the fair value of the Pre-IPO share options at the date of grant as follows:

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

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

## 17. RESERVES

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefore.

In accordance with the relevant regulation in the PRC, the subsidiaries operating in the PRC are required to transfer 10% of their profits after tax, as determined under the accounting regulations in the PRC, 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 are subject to certain restrictions set out in the relevant regulations in PRC. These reserves can be used either to offset against accumulated losses or be capitalized 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 the above mentioned usages.

Buildings revaluation reserve represents the surplus on revaluation of the Group's buildings. The balance on this reserve is wholly non-distributable.

# Notes to the Condensed Consolidated Financial Statements

30 June 2011

## 18. CONTINGENT LIABILITIES AND COMMITMENTS

The Group has no material contingent liabilities or commitments as at 30 June 2011 (31 December 2010 : HK\$Nil).

## 19. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the Interim Financial Statements, the Group had the following material transactions with related parties during the six months ended 30 June 2011:

Related party relationship	Types of transaction	Transaction amount		Balance owed/(owing)	
		Unaudited Six months ended 30 June		Unaudited As at 30 June	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	Audited As at 31 December 2010 HK\$'000
Substantial shareholder — 數源科技股份有限公司	Sales Purchase	1,838 —	1,757 454	3,232 —	3,580 —

- (b) Included in prepayments, deposits and other receivables are amounts due from certain shareholders totaling HK\$399,000 (31 December 2010: HK\$361,000). The balances due are unsecured, interest-free and have no specific terms of repayment;
- (c) Included in other payables, accrued expenses and deposits are accrued interest payable to Mr. Zhang, totaling HK\$755,000 (31 December 2010 : HK\$741,000). The balance due are unsecured and have no specific terms of repayment. Interest is charged at 9% per annum;
- (d) During the Period, interest expenses on other loans from Mr. Zhang amounted to HK\$13,500 (2010: HK\$274,000). Details of the loans are disclosed in note 14 to the Interim Financial Statements; and
- (e) During the Period, total compensation paid to the Directors of the Company was HK\$1,266,000 (2010: HK\$1,240,000).

The related party transactions in respect of items (b), (c), (d) and (e) above also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

The Group has not made any impairment in respect of related party receivable nor has any guarantee been given or received during the current or prior period regarding related party transactions.

## 20. EVENTS AFTER REPORTING PERIOD

On 30 August 2011, the Group entered into a share transfer agreement with an independent third party to dispose of its entire 38.5% equity interest in an associate for a cash consideration of approximately RMB3,000,000 with an estimated gain before expenses of approximately HK\$1,670,000.

Subsequent to the end of reporting period, the Group is in process of negotiation with an independent third party to dispose of its equity interests in two wholly owned subsidiaries, Dragon Gain Resources Limited and Mitsumaru Electrical (Wuhu) Co. Ltd. (the "Disposal"). These subsidiaries incurred significant losses in the past years and management believes the Disposal will assist the Group to deploy resources in other business.

## 21. COMPARATIVE FIGURES

In the condensed consolidated statement of comprehensive income, depreciation and rental expenses of approximately HK\$3,115,000 included under administrative expenses in 2010 condensed consolidated interim financial statements have been reclassified to cost of sales in order to achieve a consistent presentation with the current period.

## 22. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These unaudited Interim Financial Statements were approved and authorised for issue by the Board of Directors on 30 August 2011.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Overall Financial Results

During the Period, the Group achieved approximately HK\$125,196,000 in turnover, representing an increase of approximately 107% from that of approximately HK\$60,328,000 during the same period of last year. Gross profit was approximately HK\$3,364,000, a significant improvement on the gross loss approximately HK\$517,000 during the corresponding period of last year. The overall gross profit ratio rose from -0.8% to approximately 2.7%. Loss for the Period attributable to owners of the Company was approximately HK\$9,055,000 (for the corresponding period of last year: approximately HK\$21,750,000). Basic loss per share was approximately HK2.3 cents (for the corresponding period of last year: approximately HK5.5 cents). As at 30 June 2011, the balance of cash and cash equivalents was approximately HK\$31,557,000 (31 December 2010: HK\$86,250,000).

### Turnover

During the Period, the increase in turnover was mainly due to the management's success in reviving the Group's business and business transformation so as to improve operations.

The Group's business can mainly be divided into three operating segments (details of segment information can be found in note 3 of the Condensed Consolidated Financial Statements).

#### (i) *Design and assembly*

This segment's sales was increased from approximately HK\$17,400,000 which representing approximately 29% of total sales in interim 2010 to approximately HK\$89,800,000 which representing approximately 72% of total sales in interim 2011. The increase was attributable to the launch of new products such as iPod TVs, display walls and All-in-One super thin LED back-light TV.

#### (ii) *Assembly*

This segment engages mainly in the assembling of CRT TV. Most of the components were provided by customer. In interim 2011, the sales recorded approximately HK\$4,600,000 or 3.7% of total sales which was lower than the sales of approximately HK\$19,200,000 or 32% of total sales in interim 2010. The decreases reflect the drop down demand of traditional CRT TV.

#### (iii) *Trading*

The sales of trading segment rose from approximately HK\$23,700,000 or 39% of total sales in interim 2010 to approximately HK\$30,700,000 or 25% of total sales in interim 2011 because the Group is scaling up the trading business in the Southern part of China.

### Gross Profit

During the Period, the increase of the gross profit ratio was mainly attributable to the improvement in turnover and the launch of new products which enhanced and expanded the group's product portfolio.

# Management Discussion and Analysis

## Financial Position and Liquidity

	30 June 2011	31 December 2010
Current ratio	0.32	0.40
Quick ratio	0.24	0.32
Gearing ratio*	183%	186%

\* Gearing ratio = Net debt divided by the capital plus net debt

As at 30 June 2011, the Group's borrowings from others were decreased to HK\$155,579,000 (31 December 2010: approximately HK\$161,205,000) which led to the decrease of gearing ratio from 186% to 183%.

The cash and cash equivalents was approximately HK\$31,557,000 (31 December 2010: approximately HK\$86,250,000). The current ratio and quick ratio were approximately 0.32 and 0.24 (31 December 2010: approximately 0.40 and 0.32) respectively. The gearing ratio decreased to approximately 183% on 30 June 2011 from approximately 186% on 31 December 2010.

The maturity profile of entrusted loan and other loans are detailed in notes 13 and 14 to the Condensed Consolidated Financial Statements.

## Capital Structure and Foreign Exchange Risk

During the Period, there was no change in the Company's capital structure. The Group generally finances its operations and investing activities principally with funds from loans.

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong Dollars ("HK\$"), Renminbi ("RMB") and United States Dollars ("US\$"). The Group is exposed to foreign exchange risk arising from the exposure of US\$ against RMB and HK\$. Considering that the HK\$ is pegged to the US\$, the Group believes its exposure to exchange risk will effectively be confined to RMB against US\$. During the Period, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations. However, the Group will constantly monitor the economic situation and its foreign exchange risk position and will consider appropriate hedging measures in future as may be necessary and feasible.

## Pledge of Assets

As at 30 June 2011, assets of the Group with an aggregate carrying value of approximately HK\$193,500,000 (31 December 2010 : HK\$233,500,000) were pledged to secure borrowings of the Group.

## Employees Benefit and Expenses

As at 30 June 2011, the total number of employees in the Group was approximately 387 (31 December 2010: approximately 442). The total amount of employee wages and salaries incurred during the Period was approximately HK\$7,515,000 (six months ended 30 June 2010: approximately HK\$9,630,000). The Group determines employees' remuneration by the work responsibilities, job performance and professional experience. The Group also provides employees on-job training from time to time to upgrade the knowledge, skills and overall caliber of its employees. In addition, the Group granted employees option scheme as an encouragement.

# Management Discussion and Analysis

## BUSINESS REVIEW

Subsequent to the granting of the HK\$100 million loan from New Prime Holdings Limited the Investor (a wholly owned subsidiary of China Water Affairs Group Limited) in December 2010, the working capital position of the Group has been substantially improved. The injection of new cash is very imperative in growing the Group's business and expediting the business transformation. As at the end of 30 June 2011, the Group recorded sales of about HK\$125 million soaring 107% based on a year on year basis. We anticipate this continuing trend will persist and that the Group's level of operations will soon be satisfactory.

The net loss of the Group, thanks to the scaling up of the operation, was significantly reduced from about HK\$22 million to HK\$9 million compared with the corresponding period of last year demonstrating the continuing operation improvement.

The gross margin recorded a significant improvement from -0.8% to 2.7% and the trend is expected to continue with the increasing contribution from higher margin products such as iPod TVs, display walls as well as the All-in-One super thin LED back-light TVs.

Aggregate trade payables posted a decrease of HK\$36 million due to the enhancement of the working capital position. Total trade payables under litigation were also considerably reduced from approximately HK\$28.4 million to HK\$15.6 million during the review period.

Overall the operation has been developing in a healthy direction and has a promising business prospect driven by the Group's strong product development and production capacity.

## BUSINESS OUTLOOK

In terms of TV business, the Group will focus on the sales and development of higher end products such as iPod TV and All-in-One LED back-light LCD TVs. Leveraging the Group's existing network and long term relationships in the TV sector, the Group is scaling up the trading business in the Southern part of China. The Group recorded trading sales of HK\$30.7 million in HK and Shenzhen, in the period under review, representing 25% of the total sales and an increase of 32% year on year.

Management plan to dispose of the non-profitable operations in Wuhu and Hangzhou by the end of 2011. This will eliminate a monthly aggregate loss of about HK\$600,000 and will assist the Group to deploy more resources in its profitable businesses.

The Group has also made breakthrough in the development of the electric water meter business. Through the assistance of the Investor, we have identified a suitable system integrator in this field to acquire facilitating our penetration into this lucrative business.

The Group will also embark another round of drastic cost saving measures in Shanghai in the remaining months by laying off redundant staff and will also be seeking to generate revenues by supplying technical labour service to other companies in return for a service fee. The target cost saving will be about HK\$400,000 monthly, which undoubtedly, will lower the operating cost considerably.

In March, the Group submitted a Resumption Proposal to the Stock Exchange and has been trying its utmost to achieve the financial targets mentioned therein with a view to obtaining the approval on the resumption of shares trading.

## INTERIM DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$Nil).

## Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 30 June 2011, so far as the Directors are aware, the following persons have interests or short positions 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 5% or more in the issued share capital of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholders	Class of shares	Capacity	Number of Shares held	Approximate Percentage of the total issued Share Capital
Z-Idea Company Limited (Note 1)	Ordinary Shares	Beneficial owner	25,000,000 (L) 224,000,000 (S)	6.25% 56.00%
Zhang Shuyang (Note 2)	Ordinary Shares	Interest of controlled corporation	25,000,000 (L) 224,000,000 (S)	6.25% 56.00%
Kingston Finance Limited (Note 3)	Ordinary Shares	Holder of security Interest in shares	224,000,000 (L)	56.00%
Ample Cheer Limited (Note 4)	Ordinary Shares	Interest of controlled corporation	224,000,000 (L)	56.00%
Best Forth Limited (Note 5)	Ordinary Shares	Interest of controlled corporation	224,000,000 (L)	56.00%
Ms. Chu Yuet Wah (Note 6)	Ordinary Shares	Interest of controlled corporation	224,000,000 (L)	56.00%
Good Day International Limited (Note 7)	Ordinary Shares	Beneficial owner	45,000,000 (L)	11.25%
Ms. Wu Lixia (Note 8)	Ordinary Shares	Interest of controlled Corporation	45,000,000 (L)	11.25%
數源科技股份有限公司	Ordinary Shares	Beneficial owner	38,088,000 (L)	9.52%

Notes:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, a former Executive Director. Included in the 249,000,000 shares, 224,000,000 shares (representing 56% of the issued share capital of the Company) are subject to a Loan Agreement and Memorandum dated 30 July 2010 entered into between Z-Idea Company Limited, Mitsumaru East Kit (Holdings) Limited, Mr. Zhang and Kingston Finance Limited ("Kingston"), details of which are set out in the announcement of the Company dated 2 August 2010. Pursuant to the Loan Agreement, Kingston agreed to provide a loan of HK\$15,000,000 to the Company. The Loan Agreement imposes an obligation on the Company, among other things, to deliver the Z-Idea Share Charge and the Personal Guarantee from Mr. Zhang as securities for the Loan, and to procure Z-Idea to maintain a minimum shareholding in the Company in respect of the Charged Shares.
2. The interest in 249,000,000 shares is deemed corporate interest through Z-Idea Company Limited which is beneficially and wholly owned by Mr. Zhang Shuyang.
3. Kingston Finance Limited is owned as to 100% by Ample Cheer Limited. Ample Cheer Limited is 80% owned by Best Forth Limited and Best Forth Limited is wholly owned by Ms. Chu Yuet Wah. The 224,000,000 shares represent the securities for the Loan of HK\$15,000,000 from Kingston Finance Limited.
4. The interest in 224,000,000 shares is deemed corporate interest through Kingston Finance Limited.



## Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

5. The interest in 224,000,000 shares is deemed corporate interest through Ample Cheer Limited.
6. The interest in 224,000,000 shares is deemed corporate interest through Best Forth Limited.
7. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng, the son of Mr. Zhang Shuyang, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.
8. The interest of Ms. Wu in 45,000,000 shares is a deemed corporate interest through Good Day International Limited.
9. The letter L denotes a long position and S denotes a short position.

Save as disclosed above, so far as the Directors are aware, no person was interested in or had a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of SFO as at 30 June 2011.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debenture

As at 30 June 2011, none of the Directors and Chief Executive 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 Division 7 and 8 of Part XV of 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.

## Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2011.

## Directors' Compliance with Model Code

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards of the Model Code throughout the six months ended 30 June 2011.

## Compliance on Corporate Governance Practices

For the Period, the Company complied with all the code provisions in the Corporate Governance Code. The Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

## Audit Committee

The Audit Committee has reviewed with the management of the Company the accounting principals and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2011 with the Directors.

## Publication of Interim Results Announcement and Interim Report

The interim results announcement and interim report of the Group for the six months ended 30 June 2011 are available for viewing on the website of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") at [www.hkex.com.hk](http://www.hkex.com.hk) and on the website of the Company at [www.mitsumaru-ek.com](http://www.mitsumaru-ek.com).

## Suspension of Trading

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

## Board of Directors

As at the date of this report, the Executive Directors are Mr. Leung Koon Sing and Mr. Tang Chin Wan, the Independent Non-executive Directors are Mr. Kwong Ping Man, Mr. Martin He and Mr. Mu Xiangming.

On Behalf of the Board  
**Mitsumaru East Kit (Holdings) Limited**  
**Leung Koon Sing**  
*Executive Director*

Hong Kong, 30 August 2011