



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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2358)

Interim Report **2012**



Contents

- 02** Corporate Information
- 03** Condensed Consolidated Statement of Comprehensive Income
- 04** Condensed Consolidated Statement of Financial Position
- 05** Condensed Consolidated Statement of Changes in Equity
- 06** Condensed Consolidated Statement of Cash Flows
- 07** Notes to the Condensed Consolidated Financial Statements
- 19** Management Discussion and Analysis
- 22** Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares
- 24** Directors' Interests and Short Positions in Shares, Underlying Shares and Debenture

Corporate Information

DIRECTORS

Executive Directors:

Mr. Leung Koon Sing (resigned on 1 June 2012)
Mr. Tang Chin Wan
Mr. Siu Chi Ming (appointed on 9 February 2012)

Independent Non-executive Directors:

Mr. Kwong Ping Man (resigned on 27 April 2012)
Mr. Martin He
Mr. Mu Xiangming
Ms. Au Shui Ming (appointed on 27 April 2012)

AUDIT COMMITTEE

Ms. Au Shui Ming (*Chairman*)
Mr. Martin He
Mr. Mu Xiangming

NOMINATION COMMITTEE

Mr. Mu Xiangming (*Chairman*)
Ms. Au Shui Ming
Mr. Martin He

REMUNERATION COMMITTEE

Mr. Martin He (*Chairman*)
Ms. Au Shui Ming
Mr. Mu Xiangming
Mr. Siu Chi Ming

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. Jan Wing Fu, Barry (appointed on 1 February 2012)

AUTHORISED REPRESENTATIVES (for the purposes of the Listing Rules)

Mr. Siu Chi Ming
Mr. Jan Wing Fu, Barry

AUTHORISED REPRESENTATIVES

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

Mr. Siu Chi Ming
Mr. Jan Wing Fu, Barry

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

STOCK CODE

2358

WEBSITE

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

The board of directors (the "Directors") (the "Board") 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 2012 (the "Period") together with the comparative figures for the corresponding period of 2011.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Unaudited Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000 (Restated)
CONTINUING OPERATIONS			
Turnover	4	79,364	120,555
Cost of sales		(76,860)	(115,813)
Gross profit		2,504	4,742
Other income and gains	4	1,495	13,170
Selling and distribution costs		(1,521)	(2,868)
Administrative expenses		(11,380)	(14,695)
Other operating expenses		(60)	(1,682)
Share of loss of an associate		–	(905)
Finance costs	5	(4,146)	(4,536)
Loss before income tax	6	(13,108)	(6,774)
Income tax (expense)/credit	7	(285)	188
Loss for the period from continuing operations		(13,393)	(6,586)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation		–	(2,415)
Loss for the period		(13,393)	(9,001)
Other comprehensive loss for the period			
Loss on revaluation of buildings		(23)	–
Exchange differences on translating foreign operations		(20)	–
Other comprehensive loss for the period		(43)	–
Loss and total comprehensive loss for the period		(13,436)	(9,001)
Loss attributable to:			
– Owners of the Company		(13,171)	(9,055)
– Non-controlling interests		(222)	54
		(13,393)	(9,001)
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		(13,214)	(9,055)
– Non-controlling interests		(222)	54
		(13,436)	(9,001)
Loss per share			
From continuing and discontinued operations	8		
Basic and diluted		(HK3.3 cents)	(HK2.3 cents)
From continuing operations			
Basic and diluted		(HK3.3 cents)	(HK1.6 cents)

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	57,613	58,270
Investment property		11,793	12,118
Prepaid land premiums		5,907	5,994
Golf club membership		360	360
Goodwill		4,693	–
Available-for-sale investment		236	236
Total non-current assets		80,602	76,978
CURRENT ASSETS			
Inventories		17,266	16,373
Trade and notes receivables	11	44,000	45,333
Prepayments, deposits and other receivables		30,982	40,612
Cash and cash equivalents		3,802	12,662
Total current assets		96,050	114,980
CURRENT LIABILITIES			
Trade and bills payables	12	118,041	122,135
Other payables, accrued expenses and deposits received		36,138	31,370
Entrusted loan	13	32,940	30,545
Other loans	14	138,008	143,928
Subscription right derivative		4,982	4,861
Tax payable		1,681	1,682
Total current liabilities		331,790	334,521
Net current liabilities		(235,740)	(219,541)
Total assets less current liabilities		(155,138)	(142,563)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(4,924)	(4,646)
Total non-current liabilities		(4,924)	(4,646)
Net liabilities		(160,062)	(147,209)
Equity attributable to owners of the Company			
Issued capital	15	40,000	40,000
Reserves	17	(201,170)	(187,956)
Non-controlling interests		(161,170)	(147,956)
		1,108	747
Total deficits		(160,062)	(147,209)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Unaudited											
	Attributable to owners of the Company											
	Issued capital	Share premium account	Pre-IPO	Con-tributed surplus	Statutory surplus reserve	Expansion reserve	Buildings revaluation reserve	Exchange fluctuation reserve	Accu-mulated losses	Non-controlling interests	Total	Total deficits
			share option reserve									
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 2012 (unaudited)												
At 1 January 2012	40,000	52,557*	4,625*	4,990*	28,419*	701*	16,353*	15,394*	(310,995)*	(147,956)	747	(147,209)
Loss for the period	-	-	-	-	-	-	-	-	(13,171)	(13,171)	(222)	(13,393)
Other comprehensive income	-	-	-	-	-	-	(23)	(20)	-	(43)	-	(43)
Total comprehensive income for the period	-	-	-	-	-	-	(23)	(20)	(13,171)	(13,214)	(222)	(13,436)
Share options lapsed during the period	-	-	(257)	-	-	-	-	-	257	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	583	583
At 30 June 2012	40,000	52,557*	4,368*	4,990*	28,419*	701*	16,330*	15,374	(323,909)*	(161,170)	1,108	(160,062)
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 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)

* These reserve accounts comprise the consolidated deficit in reserves at HK\$201,170,000 (31 December 2011: HK\$169,298,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Net cash inflow/(outflow) from operating activities	2,050	(59,236)
Net cash outflow from investing activities	(6,800)	(1,911)
Net cash (outflow)/inflow from financing activities	(4,110)	6,454
Net decrease in cash and cash equivalents	(8,860)	(54,693)
Cash and cash equivalents at beginning of the period	12,662	86,250
Cash and cash equivalents at end of the period	3,802	31,557

Notes to the Condensed Consolidated Financial Statements

30 June 2012

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2012 (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 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the Interim Financial Statements are consistent with those set out in the consolidated financial statements of the Group for the year ended 31 December 2011, except for adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective to the Group for accounting periods beginning on 1 January 2012 as follows:

HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first time adopters
HKFRS 7 (Amendment)	Disclosures – transfers of financial assets
HKAS 12 (Amendment)	Deferred tax – recovery of underlying assets

The adoption of the new HKFRSs has no material impact on the Group's results and financial position for the current or prior periods.

The Group has not applied the new HKFRSs that have been issued but are not effective. 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 material impact on its results of operations and financial position.

This Interim Financial Statements have not been audited by the auditors of the Company, but have been reviewed and approved by the Audit Committee of the Company.

Notes to the Condensed Consolidated Financial Statements

30 June 2012

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board 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 televisions, assembling of televisions and the trading of related components;
- Trading – Trading of components related to televisions; and
- Water meter - the sale, design, assembly and installation of water meters and provision of after sales and related services of water meters.

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

Six months ended 30 June 2012	Design and assembly (Unaudited) HK\$'000	Trading (Unaudited) HK\$'000	Water meter (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Reportable segment revenue from external customers	59,754	17,596	2,014	79,364
Reportable segment loss	(4,242)	(1,163)	(19)	(5,424)
Reportable segment assets	175,775	15,948	7,782	199,505

Notes to the Condensed Consolidated Financial Statements

30 June 2012

3. SEGMENT INFORMATION (CONTINUED)

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

* The assembly segment was discontinued as at 31 December 2011. Details of the discontinued operation was set out in the consolidated financial statements of the Group for the year ended 31 December 2011.

The Group's segment (loss)/profit reconciles to the Group's loss before income tax as presented in its Interim Financial Statements as follows:

	Unaudited Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000 (Restated)
(Loss) or profit		
Total reporting segment (loss)/profit	(5,424)	2,987
Unallocated corporate expenses	(4,830)	(5,279)
Unallocated finance costs	(2,854)	(4,482)
Consolidated loss before income tax	(13,108)	(6,774)

4. TURNOVER AND OTHER INCOME AND GAINS

Turnover, which is also the Group's revenue, 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	
	2012 HK\$'000	2011 HK\$'000 (Restated)
Continuing operations		
Bank interest income	3	6
Rental income from investment property	1,124	1,345
Fair value change of a derivative financial instrument	(122)	–
Gain on settlement of trade payables by inventories	–	8,740
Write-back on waiver of trade payables	–	2,914
Management fee	420	–
Others	70	165
	1,495	13,170

Notes to the Condensed Consolidated Financial Statements

30 June 2012

5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000 (Restated)
Continuing operations		
Interest on loans wholly repayable within five years		
– Bank loans	158	–
– Entrusted loan	897	56
– Other loans	3,091	4,480
	4,146	4,536

6. LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived at after charging:

	Unaudited Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000 (Restated)
Continuing operations		
Cost of inventories sold	72,594	110,554
Depreciation of property, plant and equipment	2,754	2,970
Depreciation of investment property	308	380
Amortisation of prepaid land premiums	78	75
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	5,184	6,132
Pension scheme contributions	842	1,080
	6,026	7,212
Fair value change of a subscription right derivative	121	280
Foreign exchange loss, net	60	961

7. INCOME TAX (EXPENSE)/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% (30 June 2011: 15%).

Notes to the Condensed Consolidated Financial Statements

30 June 2012

7. INCOME TAX (EXPENSE)/CREDIT (CONTINUED)

The amount of income tax (expense)/credit represents:

	Unaudited Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000 (Restated)
Continuing operations		
Deferred tax (expense)/credit	(285)	188

8. LOSS PER SHARE

From continuing and discontinued operations

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\$13,171,000 (30 June 2011: HK\$9,055,000) and 400,000,000 (30 June 2011: 400,000,000) ordinary shares in issue during the Period.

The diluted loss per share for both the six months ended 30 June 2012 and 2011 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 does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (30 June 2011: HK\$Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, approximately HK\$2,107,000 (30 June 2011: HK\$1,911,000) 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 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Trade and notes receivables	203,424	204,899
Impairment	(159,424)	(159,566)
	44,000	45,333

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 2012

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 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Within 90 days	4,885	45,213
91 days to 180 days	38,543	74
181 days to 1 year	438	46
Over 1 year	134	–
	44,000	45,333

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 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Within 180 days	9,550	38,119
181 days to 1 year	33,626	11,443
1 to 2 years	4,284	3,128
Over 2 years	70,581	69,445
	118,041	122,135

As at 30 June 2012, 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\$10,247,000 (31 December 2011: HK\$13,879,000) under litigations.

During the Period, the Group settled trade payables of approximately HK\$3,632,000 in respect of trade payables balances of approximately HK\$13,879,000 under litigations as at 31 December 2011.

Notes to the Condensed Consolidated Financial Statements

30 June 2012

13. ENTRUSTED LOAN

	Effective interest rate (%)	Maturity	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Entrusted loan – current and secured	5.76	2014	32,940	30,545

On 26 April 2011, East Kit (China), entered into an entrusted loan agreement (“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 RMB60,000,000 (approximately HK\$73,200,000) to East Kit (China). As at 30 June 2012, the entrusted loan facility was utilised to the extent of approximately RMB27,000,000 (approximately HK\$32,940,000).

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\$61,261,000 as at 30 June 2012.

14. OTHER LOANS

	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 HK\$'000
Unsecured other loans from:		
<i>Interest bearing</i>		
– third parties (note (a))	15,000	23,000
– a third party (note (b)(i)&(b)(ii))	3,050	3,665
<i>Non-interest bearing</i>		
– controlling beneficial shareholder (note (c))	6	72
– a third party (note (b)(iii))	1,220	–
– a third party (note (d))	732	–
	20,008	26,737
Secured other loans from:		
<i>Interest bearing</i>		
– a third party (note (e))	15,000	15,000
– New Prime (note (f))	103,000	102,191
	118,000	117,191
	138,008	143,928

All other loans are repayable within one year.

Notes to the Condensed Consolidated Financial Statements

30 June 2012

14. OTHER LOANS (CONTINUED)

Notes:

- (a) Pursuant to promissory notes entered into by the Group with three independent third parties in July and August 2010, the Group promised to pay 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. During 2011 and the Period under review, the Group repaid a total of HK\$20,500,000 and agreed with these independent third parties to extend the maturity date of the remaining loans of HK\$15,000,000 to 31 December 2012.
- (b)(i) The unsecured loan of RMB3,000,000 (approximately HK\$3,660,000) from an independent third party as at 31 December 2011 bear interest at a fixed rate of 1% per month and was matured on 31 December 2011. During the Period, the Group repaid RMB1,000,000 (approximately HK\$1,220,000) and on 1 January 2012, the maturity date of the remaining loan of RMB2,000,000 (approximately HK\$2,440,000) was extended to 30 June 2012.
- (b)(ii) On 16 April 2012, the Group entered into a new loan of RMB500,000 (approximately HK\$610,000) with the same third party interest at a fixed rate of 2% per month with the maturity date on 16 May 2012. Up to the date of this interim report, the Group is in the process of negotiation with these independent third party to extend the loan to the second half of 2012.
- (b)(iii) On 29 June 2012, the Group entered into a new loan of RMB1,000,000 (approximately HK\$1,220,000) with the same third party which was interest free with the maturity date on 18 July 2012. Up to the date of this interim report, the Group is in the process of negotiation with the independent third party to extend the loan to the second half of 2012.
- (c) The loan from the controlling beneficial shareholder is unsecured and repayable within one year.
- (d) On 23 April 2012, the Group entered into a new loan of RMB1,300,000 (approximately HK\$1,586,000) with an independent third party which was interest free with the maturity date on 23 June 2012. During the Period, the Group repaid RMB700,000 (approximately HK\$854,000). Up to the date of this interim report, the Group is in the process of negotiation with the independent third party to extend the loan to the second half of 2012.
- (e) On 30 July 2010, the Company entered into a loan agreement with an independent third party, Kingston Finance Limited (“Kingston”). Pursuant to the agreement, Kingston agreed to provide a loan of HK\$15,000,000 to the Company, which is secured by a charge over 224,000,000 shares of the Company (the “Charged Shares”) beneficially owned by Z-Idea Company Limited (“Z-Idea”), which is wholly and beneficially owned by Mr. Zhang Shuyang (“Mr. Zhang”), and a personal guarantee given by Mr. Zhang. The Company also undertakes and procures Z-Idea to ensure that the Charged Shares shall not at any time be less than 56% of the total issued share capital of the Company, and Z-Idea to refrain from exercising any voting rights or such other action to approve or agree to any new issue of shares of the Company or such other activity which would have the effect of diluting the Charged Shares without the prior consent of Kingston, failing which the loan will immediately become due and payable. The loan was interest bearing at 12% per annum, and was initially repayable on 30 Jun 2011. During the year, the loan was extended to 30 September 2012 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 and further extended to 31 December 2012.

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.

Notes to the Condensed Consolidated Financial Statements

30 June 2012

15. SHARE CAPITAL

	Unaudited As at 30 June 2012 HK\$'000	Audited As at 31 December 2011 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 2012

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			
	2012		2011	
	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	18,760	1.068	21,300
Lapsed during the Period	1.068	(890)	1.068	(1,230)
At 30 June	1.068	17,870	1.068	20,070

Notes to the Condensed Consolidated Financial Statements

30 June 2012

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 2012:

Number of options '000	Exercise price* HK\$ per share	Exercise period
17,870	1.068	25 June 2004 to 24 June 2014

31 December 2011:

Number of options '000	Exercise price* HK\$ per share	Exercise period
18,760	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 2012 (2011: 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 2012

18. CONTINGENT LIABILITIES AND COMMITMENTS

The Group has no material contingent liabilities or commitments as at 30 June 2012 (31 December 2011: 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 2012:

(a) Related party relationship	Types of transaction	Transaction amount		Balance owed/(owing)	
		Unaudited Six months ended 30 June		Unaudited As at 30 June 2012	Audited As at 31 December 2011
		2012 HK\$'000	2011 HK\$'000		
Substantial shareholder – 數源科技股份有限公司	Sales	–	1,838	–	3,232

(b) Included in prepayments, deposits and other receivables are amounts due from certain shareholders totaling HK\$406,000 (31 December 2011: HK\$406,000). The balances due are unsecured, interest-free and have no specific terms of repayment;

(c) During the Period, interest expenses on other loans from Mr. Zhang amounted to HK\$Nil (30 June 2011: HK\$13,500). Details of the loans are disclosed in note 14 to the Interim Financial Statements; and

(d) During the Period, total compensation paid to the Directors of the Company was HK\$480,000 (30 June 2011: HK\$1,266,000).

The related party transactions in respect of items (b), (c) and (d) 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 18 May 2012, the Group entered into a conditional sale and purchase agreement (“Agreement”) with an independent third party to dispose the entire equity interest in Kitking Global Limited (“Kitking”) for a total consideration of HK\$1,000,000. Pursuant to the Agreement, the Group also agreed to irrevocably and unconditionally waive all the outstanding shareholders’ loan owing by the Kitking and its subsidiaries to the remaining group at the completion date.

Subsequent to the end of reporting period, the Group is in the process of negotiation with independent third parties to dispose of (i) the entire equity interests in two wholly owned subsidiaries, World Express Resources Limited and Mitsumaru (H.K.) Limited, and (ii) the 41.8% equity interest in an associate, Mitsumaru Japan Limited (“the Disposal”). These subsidiaries and associate incurred significant losses in the past years and management believes that the Disposal will assist the Group to deploy resources in other business.

21. APPROVAL OF INTERIM FINANCIAL STATEMENTS

This Interim Financial Statements were approved and authorised for issue by the Board of Directors on 24 August 2012.

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

During the Period, the Group achieved approximately HK\$79,364,000 in turnover in continuing operations, representing a decrease of approximately 34% from that of approximately HK\$120,555,000 during the same period of last year. Gross profit under continuing operations was approximately HK\$2,504,000, comparing to the gross profit of approximately HK\$4,742,000 during the corresponding period of last year. The overall gross profit ratio dropped from approximately 3.9% to approximately 3.2%. Loss for the Period attributable to owners of the Company was approximately HK\$13,171,000 (for the corresponding period of last year: approximately HK\$9,055,000). Basic loss per share was approximately HK3.3 cents (for the corresponding period of last year: approximately HK2.3 cents). As at 30 June 2012, the balance of cash and cash equivalents was approximately HK3,802,000 (31 December 2011: HK\$12,662,000).

Turnover

During the Period, the decrease in turnover was mainly due to tight working capital and the overall shrinking global demand in TV products.

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

(i) *Design and assembly of colour televisions*

This segment's sales was decreased from approximately HK\$89,840,000 which representing approximately 72% of total sales in interim 2011 to approximately HK\$59,754,000 which representing approximately 75% of total sales in interim 2012. The decrease was aligned with the overall decline in turnover and was mainly attributable to tight working capital.

(ii) *Trading of components of colour televisions*

The sales of trading segment drop from approximately HK\$30,715,000 or 25% of total sales in interim 2011 to approximately HK\$17,596,000 or 22% of total sales in interim 2012. The decrease was mainly due to the keen competition in TV market and the adverse impact caused by tight working capital.

(iii) *Sale, design, assembly and installation of Water meter*

This is a new business segment which joined the Group in February 2012. During the Period under review, the water meter segment had not made material profit contribution to the Group. And the Group has conducted a comprehensive review on the operations of water meter business. Group forward, the Group will try to secure more orders for water meter business to generate more profit to the Group.

Gross Profit

During the Period, the decrease of the gross profit ratio was mainly attributable to the drop in selling prices of CTV products.

Management Discussion and Analysis

Financial Position and Liquidity

	30 June 2012	31 December 2011
Current ratio	0.29	0.34
Quick ratio	0.24	0.29
Gearing ratio*	198%	186%

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

As at 30 June 2012, the Group's borrowings from others were HK\$138,008,000 (31 December 2011: approximately HK\$143,928,000).

The cash and cash equivalents was approximately HK\$3,802,000 (31 December 2011: approximately HK\$12,662,000). The current ratio and quick ratio were approximately 0.29 and 0.24 (31 December 2011: approximately 0.34 and 0.29) respectively. The gearing ratio increased to approximately 198% on 30 June 2012 from approximately 186% on 31 December 2011.

The maturity profile of entrusted loan and other loans are detailed in notes 13 and 14 to the Interim 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 2012, assets of the Group with an aggregate carrying value of approximately HK\$176,652,000 (31 December 2011: HK\$191,958,000) were pledged to secure borrowings of the Group.

Employees Benefit and Expenses

As at 30 June 2012, the total number of employees in the Group was approximately 125 (31 December 2011: approximately 296). The total amount of employee wages and salaries incurred during the Period was approximately HK\$6,026,000 (30 June 2011: approximately HK\$7,212,000). 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 AND OUTLOOK

The first half of 2012 was a tough period to the Group. Owing to the tight working capital condition and the slow down of the worldwide TV market, the Group achieved a turnover of approximately HK\$79,364,000 in continuing operations in the first half of 2012, a decrease of 39% from previous year. Gross profit also dropped from approximately 3.9% to approximately 3.2% during the Period.

Following the disposal of the television and its related business, the Group will continue to carry out its existing business of sale, design, assembly and installation of electronic water meters and provision of after sales and related services. The Directors acknowledge that the current electronic water meters business may not be able to meet the resumption conditions set by the Stock Exchange. In conjunction with formulating the new resumption proposal, the Directors are actively pursuing potential acquisition targets for the Group which would have a sufficient level of operations and tangible assets of sufficient value to meet the resumption conditions set by the Stock Exchange.

In order to enhance the performance of the Group, creating value for the Shareholders and apply for resumption of trading of the Company's shares, the Directors have identified certain potential acquisition targets with stable profit and promising future, preliminary discussions have taken place but no terms and conditions have been agreed and such acquisition may or may not materialise, the Directors will review possible acquisition opportunities continuously and will update the Shareholders and investors once such acquisition materialises and the progress of the resumption proposal as and when appropriate.

INTERIM DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (30 June 2011: HK\$Nil).

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

As at 30 June 2012, 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:

- Z-Idea Company Limited ("Z-Idea") is wholly owned by Mr. Zhang Shuyang ("Mr. Zhang"), a former Executive Director. Included in the 249,000,000 shares are, 224,000,000 shares (representing 56% of the issued share capital of the Company) which are subject to a loan agreement and memorandum dated 30 July 2010 entered into between Z-Idea, the Company, 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.
- The interest in 249,000,000 shares is deemed corporate interest through Z-Idea which is beneficially and wholly owned by Mr. Zhang.

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

3. Kingston 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.
4. The interest in 224,000,000 shares is deemed corporate interest through Kingston.
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, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.
8. The interest 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 2012.

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

As at 30 June 2012, 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 2012.

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 2012.

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 Interim Financial Statements for the six months ended 30 June 2012 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 2012 are available for viewing on the website of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkex.com.hk and on the website of the Company at 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. Siu Chi Ming and Mr. Tang Chin Wan, the Independent Non-executive Directors are Ms. Au Shui Ming, Mr. Martin He and Mr. Mu Xiangming.

On Behalf of the Board
Mitsumaru East Kit (Holdings) Limited
Siu Chi Ming
Executive Director

Hong Kong, 24 August 2012