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

(Incorporated in the Cayman Islands with limited liabilities)
(Stock code: 2358)

VERY SUBSTANTIAL DISPOSAL

On 18 May 2012, the Vendor (a wholly-owned subsidiary of the Company) entered into the Agreement with the Purchaser, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Share at the Consideration of HK\$1,000,000. The Sale Share represents 100% of the issued share capital of, and the Group's entire interest in, Kitking. Pursuant to the Agreement, the Vendor also agreed to irrevocably and unconditionally waive all the outstanding shareholder's loan owing by the Kitking Group to the Remaining Group as at Completion.

The Kitking Group is engaged in the design of chassis of colour televisions, assembly of colour televisions and trading of components related to colour televisions. Following the Disposal, the Remaining Group will cease to engage in television related business and will continue with its other existing business in the design, assembly and installation of water meters and provision of related services. In conjunction with the formulation of its resumption plan for its Shares, the Company will also seek for other potential acquisition targets to strengthen its business, operations and assets.

The Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM by way of poll. As no Shareholder has a materially different interest in the Disposal, no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM to approve the Disposal.

A circular containing details of the Agreement, financial information on the Group, the Kitking Group and the Remaining Group, and other information required under the Listing Rules together with the notice of the EGM is expected to be despatched to the Shareholders on or before 21 June 2012.

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 14 February 2008 and shall remain suspended until further notice.

The Board is pleased to announce that on 18 May 2012, the Vendor (a wholly-owned subsidiary of the Company) entered into the Agreement with the Purchaser to dispose of its entire interest in Kitking. The Kitking Group is engaged in the design of the chassis of colour televisions, assembly of colour televisions and the trading of components related to colour televisions. Details of the Agreement are set out below.

THE AGREEMENT

Date

18 May 2012

Parties

- (i) Mitsumaru East Kit (Group) Limited (the Vendor); and
- (ii) Mr. Guo Yu Qing (the Purchaser).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser is a third party independent of the Company and CWA and their respective connected persons (as defined in the Listing Rules). The Purchaser is a merchant with extensive experience in LCD/LED television production in the PRC.

Assets to be disposed of

Pursuant to the Agreement: (i) the Vendor conditionally agreed to sell the Sale Share to the Purchaser free from all liens, charges and encumbrances and together with all rights attaching thereto including all dividends and distributions declared, made or paid after the date of Completion; and (ii) the Vendor conditionally agreed to irrevocably and unconditionally waive all the outstanding shareholder's loan provided to the Kitking Group by the Remaining Group as at the date of Completion by way of the Deed of Waiver.

The Sale Share represents 100% of the issued share capital of and the Group's entire interest in Kitking.

As at 31 December 2011, the outstanding amount of the shareholder's loan owed by the Kitking Group to the Remaining Group was approximately HK\$61.2 million.

Consideration

The Consideration shall be HK\$1,000,000, which shall be settled by the Purchaser in cash on Completion.

Conditions

Completion is conditional upon:

- (i) (if required) the passing by the Shareholders of ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder in accordance with the Listing Rules and applicable laws and regulations;
- (ii) the due execution of the Deed of Waiver; and
- (iii) all necessary approvals, authorisations and consents required on the part of the Vendor in connection with the Agreement and the Disposal having been obtained.

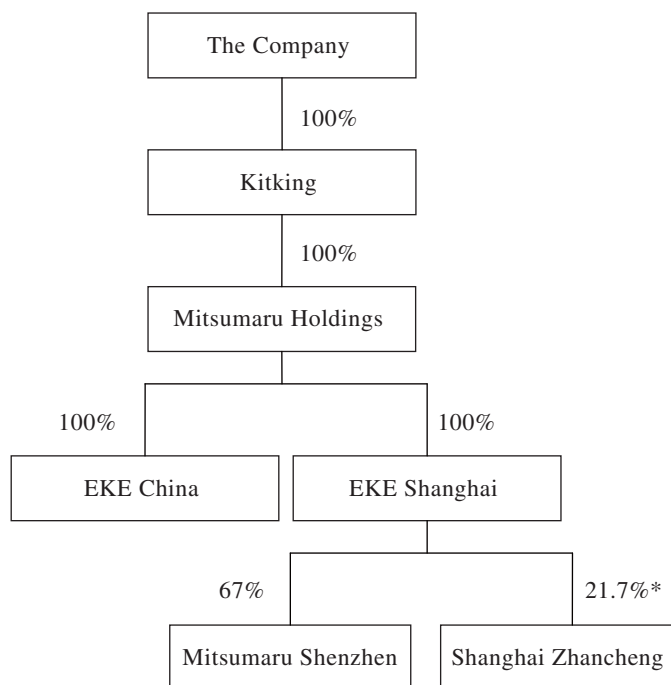
The above conditions are not capable of being waived. If the above conditions are not satisfied on or before 30 September 2012 (or such later date as the parties to the Agreement may agree in writing), the Agreement shall cease and determine.

Completion

Completion shall take place within three business days after the date of fulfillment of the conditions under the Agreement.

INFORMATION ON THE KITKING GROUP

The Kitking Group is principally engaged in the design of chassis of colour televisions, assembly of colour televisions and the trading of components related to colour televisions. The business of design of chassis of colour televisions and assembly of colour television sets is carried out under EKE Shanghai at the production facilities located in Shanghai, the PRC. The trading business is carried out under EKE Shanghai, Mitsumaru Shenzhen and Mitsumaru Holdings. The group structure of the Kitking Group is set out below:



* EKE Shanghai holds 21,7% equity interest in Shanghai Zhancheng, with a percentage of both the voting rights and profit sharing of 19.3%.

Financial information of the Kitking Group

	For the year ended 31 December	
	2010	2011
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	92,130	316,183
Loss before tax	(33,949)	(10,215)
Loss after tax	(33,551)	(9,892)
		As at
		31 December
		2011
		(unaudited)
		<i>HK\$'000</i>
Total assets		170,789
Total liabilities		(243,943)
Net liabilities		(73,154)

REASONS FOR THE DISPOSAL

At present, the Group is principally engaged in (i) the design of the chassis of colour televisions, assembly of colour televisions and the trading of components related to colour televisions; and (ii) the sales, design, assembly and installation of water meters and provision of related services.

As disclosed in the Company's 2011 annual report, with the granting of the HK\$100 million loan facility from New Prime Holdings Limited (a wholly-owned subsidiary of CWA) in December 2010, the Group's working capital position has been substantially improved. Such financial support has enabled the Group to deliver an improvement in overall performance in terms of turnover and gross profit margin. For the year ended 31 December 2011, the Group derived turnover and gross profit from continuing operation of the design and assembly of television products and trading of television related components of approximately HK\$316.2 million and HK\$11.0 million, versus HK\$92.6 million and HK\$1.5 million recorded in the year ended 31 December 2010. Despite the significant improvements in turnover and gross profit, the Kitking Group still suffered loss after tax of approximately HK\$9.9 million after taking into account the substantial amount of depreciation expenses in respect of property, plant and equipment of approximately HK\$5.6 million, write-down of inventories of approximately HK\$6.3 million and impairment of trade receivables of approximately HK\$5.0 million. The Directors consider that it would require substantial additional working capital to scale up the operations of this business and to generate a reasonable return. In light of these circumstances, the Directors consider it is beneficial to the Company to dispose of this loss making business in order to alleviate the pressure on the Group's future working capital requirements and reallocate its resources to the other business opportunities which may have prospects in generating better return for the Company.

The Consideration is determined after arm's length negotiations between the Vendor and the Purchaser taking into account factors including the net liabilities of the Kitking Group and the amount of the shareholder's loan owed by the Kitking Group to the Remaining Group as at 31 December 2011, and the unsatisfactory performance of the Kitking Group in recent years. For illustration purpose and based on the net liabilities of the Kitking Group as at 31 December 2011 of approximately HK\$73.2 million, the amount of the shareholder's loan owed by the Kitking Group to the Remaining Group of approximately HK\$61.2 million as at 31 December 2011 to be waived by the Vendor pursuant to the Deed of Waiver, the write back of the exchange reserve of the Kitking Group upon Completion of approximately HK\$15.4 million and the Consideration, the Disposal is expected to result in a gain of approximately HK\$28.4 million for the Group. The actual gain arising from the Disposal however will be calculated based on the financial information of the Kitking Group as at Completion which may be different from the estimated gain disclosed above.

Upon Completion, the Group shall cease to hold any interest in Kitking and the Kitking Group shall cease to be subsidiaries of the Company. The proceeds from the Disposal will be applied as general working capital of the Group.

Taking into account the unsatisfactory performance of the Kitking Group, the cash proceeds receivable and possible gain arising from the Disposal and the opportunity to reallocate resources after the Disposal to other business segments which may have better growth potential, the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and the Disposal is in the interest of the Company and the Shareholders as a whole.

BUSINESS OF THE REMAINING GROUP AFTER THE DISPOSAL

Following the Disposal, the Remaining Group will cease to engage in television related business and will continue to engage in its existing business of sale, design, assembly and installation of water meters and provision of after sales and related services.

The business of sale, design, assembly and installation of water meters and provision of after sales and related services is carried out under Sunbow which is a 75%-owned subsidiary acquired by the Group in February 2012. Since completion of the acquisition of Sunbow, Sunbow has not made material profit contribution to the Remaining Group. The Company has conducted a comprehensive review on the operations of Sunbow to formulate its long-term business strategy for future operations. At present, most of the production work for water meters is sub-contracted by Sunbow to independent third parties and Sunbow is primarily responsible for part of the assembly process and testing. In addition, Sunbow also provides solution services to customers who need advice on the design of water supply and related management system. Customers of Sunbow comprise end users, distributors and water supply construction companies. Going forward, Sunbow will try to secure more orders to generate sustainable profit to the Group. The Group is also engaging in discussions with CWA with a view to pursuing cooperation in the future. As at the date hereof, the Company has no intention to dispose of its water meters business.

UPDATES ON THE RESUMPTION OF TRADING OF THE SHARES

At the direction of the Stock Exchange, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 14 February 2008. As disclosed in the announcement of the Company dated 16 May 2012, the Stock Exchange issued a letter to the Company on 15 May 2012 stating that the Company has been placed in the second delisting stage under Practice Note 17 to the Listing Rules from 15 May 2012. According to the aforesaid letter, the Stock Exchange requested the Company to submit a viable resumption proposal to address the following issues at least 10 business days before 14 November 2012, being the expiry date of the second stage of delisting:

- (i) demonstrate sufficient level of operations or assets of sufficient value as required under Rule 13.24 of the Listing Rules;
- (ii) demonstrate sufficient working capital for at least twelve months from resumption date;

- (iii) address any concerns that may be raised by auditors through audit qualifications; and
- (iv) demonstrate adequate and effective internal control system to meet the obligations under the Listing Rules.

Until the satisfaction of all the resumption conditions set out above by the Stock Exchange, trading in the Shares will continue to be suspended.

During the year ended 31 December 2011, the Company submitted resumption proposals to the Stock Exchange comprising a fund raising exercise by way of an open offer. Following the finalising of the audit of the 2011 financial statements, the Directors have re-assessed the resumption proposals in light of the audited results of the Group particularly the performance of the Kitking Group, the Directors consider the business of the Kitking Group requires substantial additional working capital to scale up its operations in order to generate a reasonable return. The Directors therefore considered to cease the television related business and commenced discussions with potential investors to dispose of the Kitking Group which led to the conclusion of the Disposal with the Purchaser. In the circumstances, the resumption proposals previously submitted to the Stock Exchange will need to be reformulated. The Directors acknowledge that the current business of the Remaining Group 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. As at the date of this announcement, the Directors have identified certain potential acquisition targets, one of which is related to design, assembly and trading of televisions. The Company has been continuously reviewing possible acquisition opportunities with a view to enhancing the performance of the Company and creating value for the Shareholders. Some preliminary discussions have taken place but no terms and conditions have been agreed and such acquisition may or may not materialise. As at the date of this announcement, the Group has not entered into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether expressed or implied, about any acquisition of new business by the Group. In the event of any acquisition of business by the Remaining Group, such acquisition may constitute a reverse takeover under Chapter 14 of the Listing Rules. Further announcement(s) will be made by the Company if any such acquisition materialises and to update the Shareholders and investors on the progress of the resumption proposal as and when appropriate.

LISTING RULES IMPLICATIONS

The Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM by way of poll. As no Shareholder has a materially different interest in the Disposal, no Shareholder is required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its associates (as defined in the Listing Rules) did not hold any Shares as at the date of the Agreement.

A circular containing details of the Agreement, financial information on the Group, the Kitking Group and the Remaining Group, and other information required under the Listing Rules together with the notice of the EGM is expected to be despatched to the Shareholders on or before 21 June 2012.

SUSPENSION OF TRADING

At the direction of the Stock Exchange, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 14 February 2008 and will remain suspended until further notice.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings:

“Agreement”	the conditional sale and purchase agreement dated 18 May 2012 entered into between the Vendor and the Purchaser in relation to the Disposal
“Board”	the board of Directors
“Company”	Mitsumaru East Kit (Holdings) Limited, a company incorporated in the Cayman Islands with limited liabilities, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code : 2358)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Agreement
“Consideration”	the consideration of HK\$1,000,000 for the Sale Share under the Agreement

“CWA”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code : 855)
“Deed of Waiver”	the deed of waiver to be executed by the Vendor and Kitking at Completion, pursuant to which the Vendor shall waive all the outstanding shareholder’s loan owed by the Kitking Group to the Remaining Group
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Share by the Vendor to the Purchaser pursuant to the terms and conditions of the Agreement
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and approve the Agreement and the transactions contemplated thereunder
“EKE China”	東傑電氣(中國)有限公司 (East Kit Electronic (China) Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of Mitsumaru Holdings
“EKE Shanghai”	東傑電氣(上海)有限公司 (East Kit Electronic (Shanghai) Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of Mitsumaru Holdings
“Group”	the Company and its subsidiaries
“Kitking”	Kitking Global Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company as at the date of the Agreement
“Kitking Group”	Kitking and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mitsumaru Holdings”	Mitsumaru (Holdings) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Kitking

* *for identification purposes only*

“Mitsumaru Shenzhen”	深圳市三丸電氣有限公司 (Shenzhen Mitsumaru Electronic Co., Ltd.*), a company established under the laws of the PRC with limited liability, 67% of the registered capital of which is held by EKE Shanghai
“PRC”	The People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this announcement
“Purchaser”	Mr. Guo Yu Qing
“Remaining Group”	the Group immediately after Completion
“Sale Share”	one ordinary share of HK\$0.01 in the capital of Kitking, representing 100% of the issued share capital of Kitking as at the date of the Agreement and at Completion
“Shanghai Zhancheng”	上海戰誠電子科技有限公司 (Shanghai Zhancheng Electronic Technology Co., Ltd.*), a company established under the laws of the PRC with limited liability, 21.7% of the registered capital of which is held by EKE Shanghai, with a percentage of both the voting rights and profit sharing of 19.3%
“Share(s)”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunbow”	Wuhan Sunbow Science & Technology Co., Ltd., a company established under the laws of the PRC with limited liability
“Vendor”	Mitsumaru East Kit (Group) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

* *for identification purposes only*

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By order of the Board
Mitsumaru East Kit (Holdings) Limited
Siu Chi Ming
Executive Director

Hong Kong, 31 May 2012

As at the date of this announcement, the executive Directors are Mr. Leung Koon Sing, Mr. Tang Chin Wan and Mr. Siu Chi Ming; and the independent non-executive Directors are Ms. Au Shui Ming, Mr. Martin He and Mr. Mu Xiangming.