



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)



ANNUAL REPORT 2010

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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, 50/F.
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

COMPANY SECRETARY

Mr. Cheng Sik Kong

AUTHORISED REPRESENTATIVES

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

Corporate Information

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

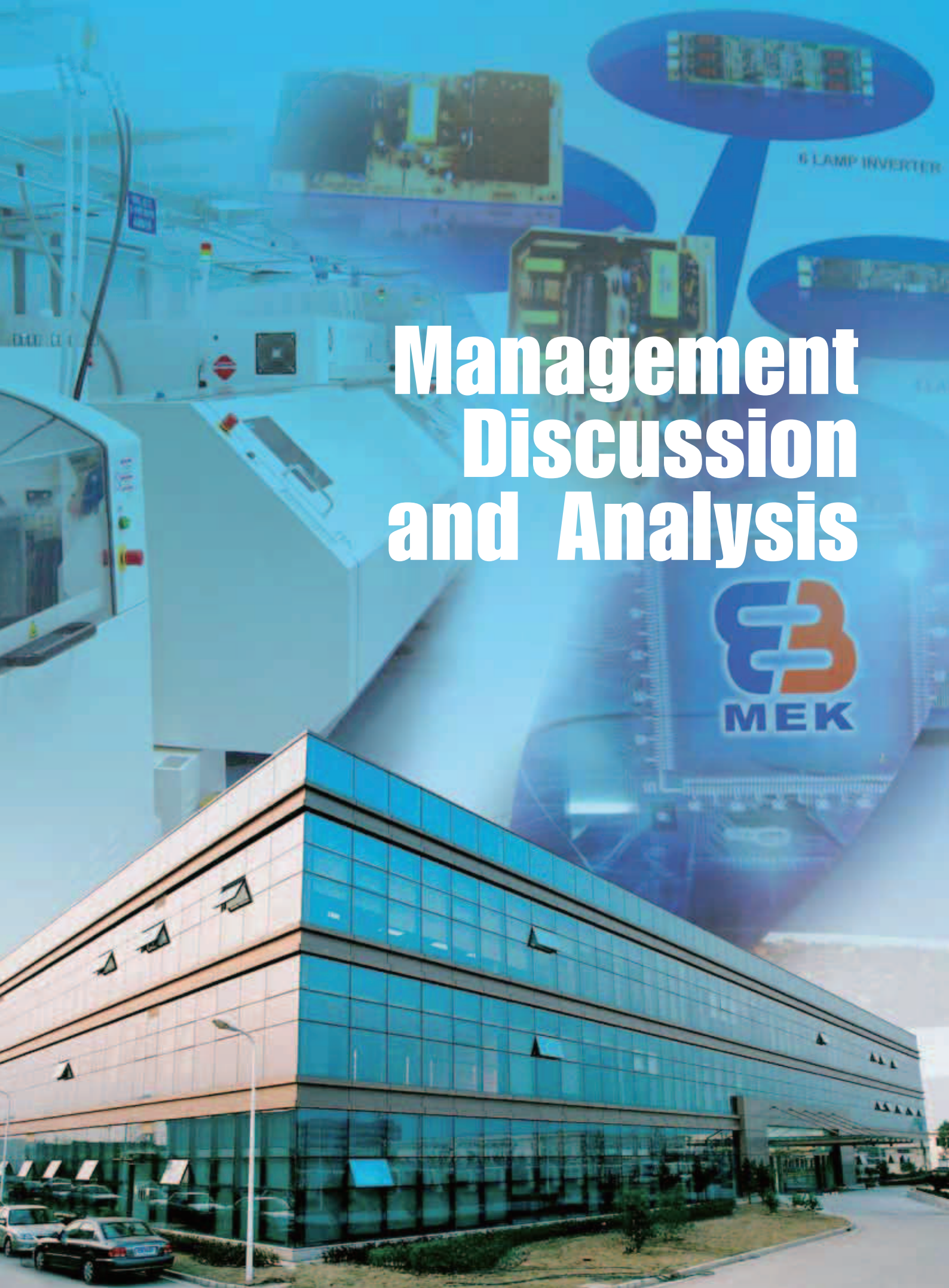
Bank of Communications
No. 6, Yu Lan Garden, Xin Wu Road
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An Hui Province
PRC

STOCK CODE

2358

WEBSITE

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



Management Discussion and Analysis



Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

For the year ended 31 December 2010 (the "Year"), the Group achieved approximately HK\$124,100,000 in turnover, representing a decrease of approximately 26% from that of approximately HK\$167,500,000 in the previous year. The gross profit was approximately HK\$3,400,000 representing an increase of approximately HK\$3,600,000 from that of gross loss approximately HK\$200,000 in the previous year. The loss for the Year attributable to owners of the Company was approximately HK\$49,700,000 while that for the year ended 31 December 2009 was approximately HK\$88,600,000. Basic loss per share attributable to owners of the Company was approximately HK12.4 cents while that for the year ended 31 December 2009 was HK22.1 cents. As at 31 December 2010, balance of cash and cash equivalents were approximately HK\$86,300,000.

Turnover

For the Year, the Group recorded approximately HK\$124,100,000 in turnover, a decrease of 26% on a year-on-year basis. The decrease was mainly attributable to tight working capital thereby hindering revenue growth.

Geographically, the segments of PRC and other Asian countries are the major markets of the Group. The Group's turnover generated from Asian markets (including the PRC) decreased from approximately HK\$164,900,000 for the year ended 31 December 2009 to approximately HK\$115,200,000 for the Year, representing a decrease of approximately 30%. Other than tight working capital, the decrease was attributable to rapid changes due to technological advances. Faced with intense PRC market competition, the Group has sourced every possible means to undergo a drastic product transition from traditional LCD TV to LED backlight LCD TV production. In the overseas market, the Company aims at the developing countries such as Russia, Africa and Brazil. In the Year, the sales performance of South America segment was improved. The turnover generated from South America increased from approximately HK\$40,000 for the year of 31 December 2009 to approximately HK\$5,600,000 for the Year.

The Group's business can mainly be divided into three operating segments (details of segment information can be found in note 4 of the Financial Statements in this annual report).

(i) *Design and assembly*

This segment's sales was decreased from approximately HK\$77,200,000 which representing approximately 46% of total sales in 2009 to approximately HK\$52,700,000 which representing approximately 42% of total sales in 2010. The decrease was aligned with overall turnover decline and mainly attributable to tight working capital.

(ii) *Assembly*

This segment engages mainly in the assembling of CRT TV. Since most of the components were provided by customer, the segment required less working capital. In 2010, the sales recorded approximately HK\$31,500,000 or 25% of total sales which was higher than the sales of approximately HK\$21,400,000 or 13% of total sales in 2009. The increase was mainly attributable to growth of customers order.

Management Discussion and Analysis

(iii) Trading

Among the 3 business segments, the performance of trading segment was the worst. The sales was dropped from approximately HK\$68,900,000 or 41% of total sales in 2009 to approximately HK\$39,900,000 or 32% of total sales in 2010. The decrease reflected the keen competition of TV market and adverse impact caused by tight working capital.

Gross Profit Margin

Owing to the drop in selling prices of TV products, the gross profit margin of TVs generally declined. In the Year of 2010, the profit margin was very thin. Basically, the Group maintained a gross margin of 2.8%, while the gross margin was -0.13% in 2009. The negative gross margin in 2009 was mainly attributable to a net write-down of inventory of approximately HK\$6,300,000.

Expenses

The Group's selling and distribution costs declined from approximately HK\$6,600,000 in 2009 to approximately HK\$4,700,000 during the Year, primarily attributable to the stringent cost control measures. Administrative expenses decreased from approximately HK\$50,500,000 in 2009 to approximately HK\$35,200,000 during the Year, primarily because of staff cost saving. Increase in finance expenses was mainly due to increase in outstanding loan balance. Details of finance costs can be found in Note 7 of the Notes to Financial Statements in this annual report. By the end of the Year, the Group had no outstanding bank loan in HK and PRC (2009: HK\$22,760,000).

Financial Position and Liquidity

	31 December 2010	31 December 2009
Current ratio	0.40	0.25
Quick ratio	0.32	0.12
Gearing ratio	186%	147%

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

For the Year, the Group used approximately HK\$37,100,000 (2009: approximately HK\$124,000,000) of cash from its operations. As at 31 December 2010, the Group had cash and cash equivalents of approximately HK\$86,300,000 (2009: approximately HK\$4,900,000). The increase in cash and cash equivalents was mainly due to increase in loans from third parties.

As at 31 December 2010, deficit in shareholders' equity was approximately HK\$120,200,000 (2009: HK\$71,500,000). Current assets of the Group amounted to approximately HK\$138,500,000 (2009: approximately HK\$57,300,000). The current ratio and quick ratio were approximately 0.40 and 0.32 (2009: approximately 0.25 and 0.12), respectively.

As at 31 December 2010, the Group's net debts amounted to approximately HK\$259,600,000 (2009: HK\$224,700,000) and the gearing ratio, representing the ratio of net debts divided by the capital plus net debts, increased to 186% in 2010 from 147% in 2009. In order to ensure sufficient funds available for operation, the Group is in the process of negotiation with a bank in the People's Republic of China to obtain new banking facility of approximately RMB45,000,000.

Trade and notes receivables increased from approximately HK\$15,700,000 as at 31 December 2009 to approximately HK\$16,300,000 as at 31 December 2010. During the Year, approximately HK\$3,200,000 was provided for impairment losses.

Management Discussion and Analysis

Capital Expenditure

The Group's total capital expenditures on property, plant and equipment during the year amounted to approximately HK\$1,400,000 (2009: HK\$300,000).

Pledge of Assets

As at 31 December 2010, all assets of the Group with an aggregate carrying value of approximately HK\$233,500,000 (2009: certain assets of approximately HK\$62,200,000) were pledged to secure borrowings of the Company and of the Group.

Capital Structure and Foreign Exchange Risk

During the Year, there was no change in the Company's capital structure. The Group generally finances its operations and investing activities with fund from the owners and other loans. Details of other loans can be found in note 29 of the Financial Statements in this annual report.

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 be confined to RMB against US\$. At present, the Group does not intend to hedge its exposure to foreign exchange 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.

Capital Commitments and Contingent Liabilities

The Group had no capital commitments and contingent liabilities (2009: nil) as at 31 December 2010.

Employees Benefit and Expenses

As at 31 December 2010, there were 442 employees in the Group (2009: 471). The total amount of employee remuneration incurred during the Year was approximately HK\$22,800,000 (2009: approximately HK\$28,000,000). 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.

BUSINESS REVIEW

The year 2010 was a tough year for the Group. For the whole year, the Group recorded HK\$124,100,000 in sales, HK\$50,400,000 in operating loss and HK\$49,700,000 in loss attributable to owners of the Company. Basic loss per share amounted to HK12.4 cents (2009: HK22.1 cents).

Nonetheless, the Group adopted a proactive approach to respond to the challenges. In order to reduce reliance on LCD panel suppliers and integrate the upstream and down stream production, the Group has setup a "Backlight Technology Research Joint Laboratory" with Shanghai Research Center of Engineering and Technology for Solid-State Lighting and obtained 10 patents relating to LED backlight TV technology. Furthermore, the Group, jointly with the help of a local High-Tech firm, has the capacity to assemble LCD panels which enables the Group to have a better position in contracts and price negotiation. Other components, such as backlight module, light guide plate and optical films were also developed by the Group. All the aforesaid technological developments enhance the Group to launch new products such as the All-in-one TV and iPod TV with a view to regaining our market share and sustaining our operation.

Management Discussion and Analysis

OUTLOOK

2010 was a challenging year for the Group. While running the business operation of the Group, the management has been trying its utmost to address all the conditions imposed by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the application of trading resumption. Before the end of 2010, the Group has submitted all the internal control reports to the Stock Exchange.

The management has sourced every possible means to sustain the normal operation; repay the outstanding bank loan in PRC and undergo a drastic product transition from traditional LCD TV to LED backlight LCD TV production. Through the support of the Group's major shareholder, we have raised HK\$50 million working capital loan from several independent third parties, in the third quarter of 2010, to meet the aforesaid financial needs.

Furthermore, the Company entered into a loan agreement dated 1 December 2010 with China Water Affairs Group Limited ("CWA"), a company listed on the Stock Exchange, and pursuant to which CWA agrees to make a loan up to HK\$100 million in cash for reengineering the Group's operation with a view to complying with the requirements imposed by the Stock Exchange for the trading resumption application.

Subject to the successful application of trading resumption, two possible underwriters signed a non-legally binding Letter of Intent with the Group pursuant to which they have the intention to underwrite 1,500,000,000 Offer Shares in an aggregate amount of HK\$150 million. In the event the possible underwriters fail to underwrite the aforesaid amount, CWA signed a legally binding letter to the Group stating that CWA will unconditionally and irrevocably underwrite the whole amount.

During the period under review, the Group, jointly with a local high-tech firm, has made a major step in integrating the upstream and downstream production. Through these efforts, the Group has the capacity to assemble LCD panels; produce CCFL modules and LED backlight modules, which lays a solid foundation for its new products development. On top of that, the Group has invented and patented the technology of producing single layer printed LCD Board for colour TV (單層印製板液晶彩電板卡). We believe this new product — super-slim All-in-One LED backlight LCD TV — can generate significant and sustainable turnover in the second half of 2011. Strategic co-operation agreement has been signed with Haier Group in PRC.

Besides our traditional core business, the Group has leveraged our existing engineering team in venturing into production of electronic-related products such as production and installation of multi-screen display walls and water meters which will enhance our profit margin.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Leung Koon Sing, aged 51, is an Executive Director of the Company. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Arts in 1982. Mr. Leung has over twenty years of experience as a commercial banker, an investment banker as well as an operator. He is currently responsible for the overall management of the Group. Mr. Leung joined the Group and was appointed as a Director on 1 August 2008.

Mr. Tang Chin Wan, aged 50, is an Executive Director of the Company. Mr. Tang obtained a Doctorate degree in Industrial and Systems Engineering (Operations Research) from Virginia Polytechnic Institute and State University in 1995. Mr. Tang has worked in the environmental engineering and information technology business sectors for more than 12 years. He is currently responsible for overall management of the Group. Mr. Tang joined the Group and was appointed as a Director on 22 September 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Ping Man, aged 46, was appointed as an Independent Non-executive Director on 6 March 2009. Mr. Kwong is a Certified Practising Accountant of the Australian Society of Certified Practising Accountants, an associate member of Hong Kong Institute of Certified Public Accountants and an associate member of Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. Mr. Kwong graduated from Curtin University of Technology, Western Australia with a Bachelor's degree in Commerce (Accounting) in 1996. He further obtained a Master's degree in Professional Accounting from the Hong Kong Polytechnic University in 2003. Mr. Kwong is currently a Director of O'Park Corporate Services Limited. He has accumulated extensive experience in accounting and administration fields. He is also an Independent Non-executive Director of Yueshou Environmental Holdings Limited (Stock Code: 01191) and Century Sunshine Group Holdings Limited (Stock Code: 00509).

Mr. Martin He, aged 47, was appointed as an Independent Non-executive Director on 27 August 2008. Mr. He has obtained a Master of Finance degree at the University of Toronto as well as Master of Management and Bachelor of International Economics degrees from the Peking University. Mr. He has extensive experience in private equity, investment banking, corporate finance, management of listed company, as well as experience in the media industry. Mr. He is one of the founders and Managing Director of Zensation Capital Limited, a Hong Kong based business and financial consulting company which is not a listed public company.

Mr. Mu Xiangming, aged 56, was appointed as an Independent Non-executive Director on 15 June 2007. Mr. Mu graduated from Fudan University with a Bachelor's degree in Laws, and further with a Master degree in Laws from University of Oregon Law School. Mr. Mu was a member of Shanghai Municipal Government Foreign Economic Trade Committee from 1983 to 1986 and a practising lawyer in a US law firm for nearly four years. He has been a Partner and Director of Shanghai Ming and Yuan Law Firm since 1997, with experience in commercial and criminal matters.

Directors and Senior Management Profiles

FINANCIAL CONTROLLER AND COMPANY SECRETARY

Mr. Cheng Sik Kong, aged 45, is the Financial Controller and Company Secretary of the Company. Mr. Cheng holds a Master degree in Science in Accountancy from The Hong Kong Polytechnic University. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheng has over ten years of experience in accounting, auditing and financial control. He is currently responsible for the financial planning of the Group. Mr. Cheng joined the Group in May 2006 and was appointed as the Financial Controller and Company Secretary of the Company on 20 February 2008.

SENIOR MANAGEMENT

Mr. Wang Guobiao, aged 43, is the President of the Group. Mr. Wang graduated from college of business administration of Zhejiang University with a Master's degree in business administration. He has extensive experience in the home electrical appliance industry and is currently responsible for overseeing the daily operation and management of the Group. Mr. Wang joined the Group in October 2009.

Mr. Han Shiquan, aged 61, is the Vice President of the Group. Mr. Han graduated from the Faculty of Electronics Engineering of School of Electronic Instrument of East China Normal University, majoring in Radio Technology. Mr. Han was endorsed as a Senior Engineer by Shanghai Instrument and Telecommunications Industrial Bureau. He has extensive experience in the electronics and electrical appliance industries and is currently responsible for overseeing the daily operation and management of the Group. He is also the President of East Kit Electronic (Shanghai) Company Limited as well as a Director of Cyber Opto-Electrical Technology Company Limited. Mr. Han joined the Group in October 1994.

Mr. Zhao Yuan, aged 48, is the General Manager of the Sales Unit of the Group. Mr. Zhao graduated from Shanghai University of Science and Technology with a Bachelor's degree, majoring in Physics. Mr. Zhao has extensive experience in the sales of home electrical appliance, and is currently responsible for sales and marketing of the products of the Group. Mr. Zhao joined the Group in March 1993.

Mr. Shao Zhibin, aged 44, is the General Manager of the Manufacture Unit of the Group. Mr. Shao graduated from Xi'an Electronics Science and Technology University, majoring in Graphic Transmission and Processing, Information Engineering. Mr. Shao has extensive experience in the home electrical appliance industry, and is currently responsible for the supply chain management of general products of the Group. He is also a director of East Kit Electronic (Shanghai) Company Limited. Mr. Shao joined the Group in February 1998.

Mr. Ma Kejun, aged 59, is the General Manager of LED Department of the Group. Mr. Ma graduated from Shanghai University of Science and Technology, majoring in semiconductor material studies. He once worked in Shanghai Technical Physics Institute and Shanghai Semiconductor Lighting Center, and is currently responsible for the supply chain management of LED products of the Group. Mr. Ma joined the Group in October 2009.

Mr. Wu Zhiping, aged 48, is the Manager of Research & Development Unit of the Group. Mr. Wu graduated from Shanghai University of Science and Technology, majoring in TV electro-acoustic studies. He has accumulated extensive experience in the research and development of TV industry, and is currently responsible for the research and development of general products of the Group. Mr. Wu joined the Group in November 1998.

Former Director Profile

EXECUTIVE DIRECTOR

Mr. Zhang Shuyang, aged 57, was appointed as a Director on 13 February 2004 and he resigned from his office with effect from 2 March 2010. Mr. Zhang graduated from East China Normal University, majoring in Computer Science.

Apart from his experience and technical knowledge in the television industry, Mr. Zhang has over twenty years of experience in management gained from various local and overseas electronics trading companies in Hong Kong and the PRC before founding East Kit Electronic (China) Company Limited in 1993.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance practice for enhancing accountability and transparency of the Company to the investors and the shareholders. Following the issue of the “Code of Corporate Governance Practices” (the “Corporate Governance Code”) as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Company reviews its corporate governance practices from time to time to ensure they meet the requirement of the Corporate Governance Code. Pursuant to the Listing Rules, listed companies are required to include in their annual report a report on corporate governance practices during the accounting period.

For the Year, the Company complied with all the code provisions in the Corporate Governance Code except for the requirement that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (code provision A.2.1 of the Corporate Governance Code). On 2 March 2010, Mr. Zhang Shuyang resigned as Chairman and Chief Executive Officer of the Company and the Company currently has no Chairman and Chief Executive Officer. Notwithstanding the above, 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.

THE BOARD OF DIRECTORS

Composition of the Board

During the financial year ended 31 December 2010, composition of the Board was:

Executive Directors:

Mr. Zhang Shuyang (resigned on 2 March 2010)
Mr. Leung Koon Sing
Mr. Tang Chin Wan (appointed on 22 September 2010)

Independent Non-executive Directors:

Mr. Kwong Ping Man
Mr. Martin He
Mr. Mu Xiangming

To the best knowledge of the Company, there are no financial, business, family or other material/relevant relationships among members of the Board.

Corporate Governance Report

Chairman and Chief Executive Officer

Up to 1 March 2010, the Chairman and Chief Executive Officer of the Company was Mr. Zhang Shuyang, who, in his capacity of Chairman of the Board, provided leadership to the Board, and ensured that the Board was properly briefed on issues arising at board meetings and received timely, accurate and complete information for the Board's consideration.

Code provision A.2.1 of the Corporate Governance Code requires the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company deviated from the code provision, as the roles of the Chairman and the Chief Executive Officer of the Company were performed by the same individual, Mr. Zhang Shuyang. The Board considered that this structure would enable the Group to make and implement decisions promptly and efficiently.

On 2 March 2010, Mr. Zhang Shuyang resigned as Chairman and Chief Executive Officer of the Company due to personal health reason and the Company currently has no Chairman and Chief Executive Officer. Notwithstanding the above, 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.

Independent Non-Executive Directors

More than one-third of the Board comprises Independent Non-executive Directors. None of the Directors is related to one another. Mr. Kwong Ping Man possesses accounting and related financial management expertise.

Mr. Kwong Ping Man, the Independent Non-executive Director, has entered into a service contract with the Company for a term of one year, subject to re-election by shareholders at the annual general meeting of the Company at least once every three years by rotation. Mr. Martin He and Mr. Mu Xiangming, the Independent Non-executive Directors, have entered into service contracts with the Company for a term of two years, subject to re-election by shareholders at the annual general meeting of the Company at least once every three years by rotation. No Director has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three Independent Non-executive Directors are independent.

The Role of the Board

The Board is primarily responsible for the leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the affairs of the Group.

The scope of matters reserved for the Board decision includes:

- a) the directions, strategies, policies and development of the Company;
- b) the objectives, values and standards of the Company;
- c) the objectives and performance of senior management;
- d) the relationship between the Company and its shareholders, regulators and the community at large; and

Corporate Governance Report

- e) the evaluation and assessment of the adequacy of the internal control and risk management system, financial reporting and compliance.

The senior management of the Company is principally responsible for daily operations and administration of the Company. Major corporate matters that are specifically delegated by the Board to senior management include:

- a) the preparation of annual and interim reports and announcements for Board approval before public reporting;
- b) implementation and execution of business strategies and initiatives adopted by the Board;
- c) implementation of adequate systems of internal controls and risk management procedures;
- d) compliance with relevant statutory requirements and rules and regulations;
- e) the duties delegated to the Management Committee of the Board pursuant to the terms of reference which will be made available to the senior management of the Company; and
- f) any other matters delegated and authorised in writing by the Board.

The Board meets regularly, and all members of the Board are given complete, timely and reliable information in relation to the affairs of the Group, and receive the support from and have access to the Company Secretary in respect of all meetings of the Board. Each is afforded access, on his request, to senior management of the Group and to independent legal advice. All Directors receive briefings and professional development training as necessary to ensure a proper understanding of the business of the Group and their responsibilities under statute and at common law.

During the Year, six Board meetings were held and the individual attendance of each Director is set out below:

Category of Director	Name of Directors	Number of Board Meetings Attended	Attendance Rate
Executive Directors	Mr. Zhang Shuyang (resigned on 2 March 2010)	1/1	100%
	Mr. Leung Koon Sing	6/6	100%
	Mr. Tang Chin Wan (appointed on 22 September 2010)	1/1	100%
Independent Non-executive Directors	Mr. Kwong Ping Man	6/6	100%
	Mr. Martin He	6/6	100%
	Mr. Mu Xiangming	4/6	67%
Average attendance rate			94%

Corporate Governance Report

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee was established on 22 June 2004. On 25 April 2007, the Board adopted specific written terms of reference setting out the authority and duties of the Audit Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Audit Committee is to make recommendations to the Board on the appointment and removal of auditors, review the Group's financial statements, financial controls, internal controls and risk management system.

The Audit Committee comprises three members, all of them are Independent Non-executive Directors. The Audit Committee is chaired by Mr. Kwong Ping Man, who possesses accounting and related financial management expertise. The members of the Audit Committee are Mr. Martin He and Mr. Mu Xiangming.

During the Year, the Audit Committee reviewed the Unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2010. The Audit Committee also considered proposals made by the Company's auditor BDO Limited, arising out of its audit of the Group for the financial year ended 31 December 2009.

During the Year, the Audit Committee held two meetings, and the table below sets out the attendance record of each member :

Category of Director	Name of Directors	Number of Audit Committee Meetings Attended	Attendance Rate
Independent Non-executive Directors	Mr. Kwong Ping Man	2/2	100%
	Mr. Martin He	2/2	100%
	Mr. Mu Xiangming	1/2	50%
Average attendance rate			83%

Remuneration Committee

The Remuneration Committee was established on 12 December 2005. On 25 April 2007, the Board adopted specific written terms of reference setting out the authority and duties of the Remuneration Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the compensation arrangements relating to dismissal or removal of Directors to ensure that such arrangements are in accordance with the relevant contractual terms or are otherwise reasonable and appropriate.

The Remuneration Committee comprises four members and is chaired by Mr. Martin He (Independent Non-executive Director). The other members of the Remuneration Committee are Mr. Kwong Ping Man (Independent Non-executive Director), Mr. Mu Xianming (Independent Non-executive Director) and Mr. Leung Koon Sing (Executive Director). Accordingly, the Remuneration Committee comprises a majority of Independent Non-executive Directors.

Corporate Governance Report

During the Year, the Remuneration Committee held one meeting during which the Committee reviewed the Group's existing emolument policy and recommended to the Board of the Directors' remuneration in accordance with the provisions of the corresponding service contract. No Director was involved in deciding his own remuneration at the meeting of the Remuneration Committee. The table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Remuneration Committee Meetings Attended	Attendance Rate
Independent Non-executive Directors	Mr. Kwong Ping Man	1/1	100%
	Mr. Martin He	1/1	100%
	Mr. Mu Xiangming	1/1	100%
Executive Director	Mr. Leung Koon Sing	1/1	100%
Average attendance rate			100%

Nomination Committee

The Nomination Committee was established on 12 December 2005. On 25 April 2007, the Board adopted specific written terms of reference setting out the authority and duties of the Nomination Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Nomination Committee is to review the compositions of the Board, select, identify and recommend to the Board suitable candidates to be Directors, and assess the independence of independent Non-executive Directors.

The Nomination Committee comprises three members and is chaired by Mr. Mu Xiangming (Independent Non-executive Director). The other members of the Nomination Committee are Mr. Kwong Ping Man (Independent Non-executive Director) and Mr. Martin He (Independent Non-executive Director). Accordingly, the Nomination comprises a majority of Independent Non-executive Directors.

During the Year, the composition of the Nomination Committee was:

From	Period To	Nomination Committee Members
1 January 2010	1 March 2010	Mr. Mu Xiangming (Chairman) Mr. Kwong Ping Man Mr. Martin He Mr. Zhang Shuyang
2 March 2010	—	Mr. Mu Xiangming (Chairman) Mr. Kwong Ping Man Mr. Martin He

The Nomination Committee currently comprises three members and is chaired by Mr. Mu Xiangming (Independent Non-executive Director). The other members of the Nomination Committee are Mr. Kwong Ping Man (Independent Non-executive Director) and Mr. Martin He (Independent Non-executive Director).

Corporate Governance Report

The Nomination Committee currently held one meeting during which the Nomination Committee reviewed the qualifications and the performance of the current Directors and the composition of the Board, assessed the independence of Independent Non-executive Directors and recommended to the Board on relevant matters relating to the appointment of senior management. The table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Nomination Committee Meetings Attended	Attendance Rate
Independent Non-executive Directors	Mr. Kwong Ping Man	1/1	100%
	Mr. Martin He	1/1	100%
	Mr. Mu Xiangming	1/1	100%
Average attendance rate			100%

INTERNAL CONTROL REVIEW

The Board is committed to ensuring that the Group maintains sound and effective internal controls to safeguard shareholders' investment and the Group's assets. The Board has engaged an independent accounting firm to conduct a general review of the Group's internal control system which has addressed all material controls (including financial, operational and compliance controls) and risk management functions and ascertain, advise and report if any deficiency exists.

AUDITOR'S REMUNERATION

Fees for auditing services and non-auditing services in respect of agreed-upon procedures on interim financial information and review on proposed disposal of Mitsumaru East Kit (Group) Limited and its subsidiaries paid/payable to BDO Limited amounted to approximately HK\$1,057,000 (2009: HK\$1,424,000) and HK\$151,000 (2009: HK\$1,267,000) respectively for the year ended 31 December 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. The Directors have confirmed that, following specific enquiry by the Company, they had complied with the required standard set out in the Model Code throughout the Year in relation to securities transactions.

FINANCIAL REPORTING

The audited financial statements set out in this annual report have been prepared on a going concern basis. Save as disclosed in note 2.1 to the financial statements, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Directors' responsibilities for the accounts and the statement by the auditor of the Company regarding their reporting responsibilities are set out in the independent auditor's report on pages 27 to 28.

SUSPENSE OF TRADING IN THE SHARES

At the direction of the Stock Exchange, trading in the MEK Shares was suspended from 9:30 a.m. on 14 February 2008 and will remain suspended until further notice. Until satisfaction of all the resumption conditions set by the Stock Exchange, trading in the MEK Shares will continue to be suspended.

Corporate Governance Report

The Company has engaged an independent accounting firm in completing three individual internal control reviews covering on the Subject Matters, the Track of Trade Receivables and the whole business operation of the Company. The review reports have all been submitted to the Listing Division before the end of the Reporting Year.

Reference is made to the announcement of the Company dated 2 November 2009, the Board announced that the controlling Shareholder has granted the options over 300,000,000 Shares, representing 75% of the existing issued share capital of the Company, to an independent third party. On 30 July 2010, the controlling shareholder has informed the Company that due to the change of the development strategy of the Grantee, the parties to the Option Deed mutually agreed to terminate the Option Deed and entered into a termination agreement.

On 1 December 2010 the Company as the borrower and New Prime Holdings Limited (being a wholly owned subsidiary of CWA) as the lender entered into a Loan Agreement pursuant to which the Investor agreed to make available to the Company a Loan up to a principal amount of HK\$100,000,000 in cash. The Company as issuer and the Investor as subscriber also entered into a Subscription Agreement, pursuant to which the Company has agreed to issue and the Investor has agreed to subscribe for 1,000,000,000 Subscription Shares, Subject to the fulfillment (or waiver by the Investor) of conditions precedent of the Subscription Agreement on or before 31 March 2011 (the date was further extended to 30 June 2011) the Subscription Price is to be satisfied by way of offsetting against the sums owed by the Company to the Investor under the Loan Agreement. One of the precedent conditions for the completion of the Subscription is the Stock Exchange having granted or stated that it will grant (either unconditionally or subject only to conditions to which MEK and the Investor do not reasonably object) approval for (i) the Resumption of Trading; and (ii) the listing of and permission to deal in the Subscription Shares.

The Company submitted the Resumption Proposal to The Stock Exchange on 31 March, 2011. The Resumption Proposal comprises a fund raising exercise in the amount of HK\$150 Million by way of the Open Offer to be underwritten by independent underwriters under which, all Shareholders will be able to participate if they wish to avoid their shareholding percentage from being diluted. The subscription price under the Open offer is HK\$0.10 per share which is equivalent to the subscription price of the Investor under the Subscription. The Resumption Proposal, if successfully implemented, will demonstrate to the Listing Division that the Company is and will be able to comply with, among others, Rule 13.24 of the Listing Rules. In addition, the Resumption Proposal also sets out the action and expected timeframe for addressing all the issues raised by the Stock Exchange.

On behalf of the Board

Leung Koon Sing

Executive Director

Hong Kong

25 March 2011

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's loss for the Year and the state of affairs of the Company and of the Group at 31 December 2010 are set out in the financial statements on pages 29 to 95. The Directors do not recommend the payment of any dividend for the Year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated financial results and consolidated assets, liabilities and minority interests of the Group for the last five financial years is set out on page 96 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the Year are set out in notes 15 and 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and movements in the Company's share options during the Year are set out in notes 32 and 37 to the financial statements, respectively.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has complied with the public float requirement set out in the Rule 8.08 of the Listing Rules throughout the Year and up to the date of this report.

Directors' Report

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

As at 31 December 2010, 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 (Note 4)	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 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 Shuyang 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.

Directors' Report

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.
5. The interest in 224,000,000 shares is deemed corporate interest through Amper 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 in 45,000,000 shares is 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 Divisions 2 and 3 of Part XV of the SFO as at 31 December 2010.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

On 30 July 2010 the Company entered into a Loan Agreement with Kingston pursuant to which 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. Details of the Loan are set out in note 29 to the consolidated financial statements.

Z-Idea is a controlling shareholder of the Company and Mr. Zhang was a director of the Company within the preceding 12 months, and hence are connected persons of the Company.

The Z-Idea Share Charge and the Personal Guarantee constitute financial assistance provided by connected persons to the Company. As the Z-Idea Share Charge and the Personal Guarantee are for the benefit of the Company on normal commercial terms where no security over the assets of the Company is granted in respect of the financial assistance, such financial assistance is exempt from the reporting, announcement and independent's shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

SHARE OPTION SCHEMES

On 22 June 2004, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") were approved and adopted by the shareholders of the Company. The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme is to provide incentive and/or reward to the participants for their contribution to, and continuing efforts to promote the interests of the Company. Participants include any director, consultant, adviser, full-time or part-time employee of the Company and its subsidiaries who, in the sole discretion of the Board, has contributed or will contribute to the Group.

(a) Pre-IPO Share Option Scheme

As stipulated in the Pre-IPO Share Option Scheme, no further options can be granted under the Pre-IPO Share Option Scheme from 15 July 2004, being the date on which the Company's shares were listed on the Stock Exchange.

Directors' Report

Pursuant to the Pre-IPO Share Option Scheme, the Company granted options to subscribe for the shares of the Company in favour of certain directors and employees on 25 June 2004 with an exercise price of HK\$1.068 per share, being the offer price for the shares of the Company allotted when dealings in the shares commenced on the Stock Exchange, at a consideration of HK\$1.00 per option.

Each option has a 10-year exercise period commencing from 25 June 2004 to 24 June 2014. Within the 10-year exercise period, there is a total vesting period of four years. Commencing on the first, second, third and fourth anniversaries of the date of grant of the option, the relevant grantee may exercise up to 0%, 33%, 67% and 100%, respective of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

As at 31 December 2010, options to subscribe for 21,300,000 shares in aggregate at an exercise price of HK\$1.068 per share have been granted by the Company to a total of 47 employees of the Group and outstanding. Particulars of the options which have been granted to (i) all Directors; and (ii) continuous contract employees of the Group under the Pre-IPO Share Option Scheme are set out below:

Grantee	Date of grant	Exercise price per share (HK\$)	Balance as at 1 January 2010	Number of option shares		Balance as at 31 December 2010	Exercise period
				Exercised during the year ended 31 December 2010	Lapsed during the year ended 31 December 2010		
(i) Director							
Mr. Zhang Shuyang (resigned as a Director on 2 March 2010)	25/06/2004	1.068	2,300,000	—	—	2,300,000	25/06/2004– 24/06/2014
Sub-total			2,300,000	—	—	2,300,000	
(ii) Other continuous contract employees							
Senior management employees	25/06/2004	1.068	9,720,000	—	(700,000)	9,020,000	25/06/2004– 24/06/2014
Other employees	25/06/2004	1.068	10,680,000	—	(700,000)	9,980,000	25/06/2004– 24/06/2014
Sub-total			20,400,000	—	(1,400,000)	19,000,000	
Grand Total			22,700,000	—	(1,400,000)	21,300,000	

(b) Share Option Scheme

As at 31 December 2010, no option has been granted under the Share Option Scheme since it was adopted by the Company on 22 June 2004. The Share Option Scheme will remain in force until 21 June 2014 subject to earlier termination by the Company in general meeting or the Board.

The total number of shares of the Company available for issue under the Share Option Scheme as at the date of this annual report was 40,000,000 shares of the Company, which represented 10% of the issued share capital of the Company.

The maximum entitlement of each participant under the Share Option Scheme is that the total number of shares issued and to be issued upon exercise of all options granted in any 12-month period up to and including the date of grant of an option shall not exceed 1% of the total number of shares in issue at the date of grant of

Directors' Report

an option, unless approved by shareholders in general meeting with such participant and his or her associates abstaining from voting. An option may be exercised during a period to be notified by the Board and in any event such period shall not be more than 10 years after the date of the grant of the option.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board, which shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company include share premium and contributed surplus which amounted to an aggregate of approximately HK\$151,495,000 as at 31 December 2010. These reserves may be distributed, provided that immediately following the date on which the dividend is proposed to be paid, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for approximately 52% of the total sales for the Year and sales to the Group's largest customer included therein accounted for approximately 23% of total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 48% of the total purchases for the Year and purchases from the Group's largest supplier included therein accounted for approximately 33% of total purchases for the Year.

At no time during the Year have the Directors, their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive Directors:

Mr. Zhang Shuyang (resigned on 2 March 2010)
Mr. Leung Koon Sing
Mr. Tang Chin Wan (appointed on 22 September 2010)

Directors' Report

Independent Non-executive Directors:

Mr. Kwong Ping Man
Mr. Martin He
Mr. Mu Xiangming

Pursuant to article 87(1) of the Articles, Mr. Leung Koon Sing will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company scheduled for 8 June 2011 (the "AGM").

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 11.

DIRECTORS' SERVICE CONTRACTS

Mr. Leung Koon Sing, an Executive Director, has entered into a service contract with the Company on 1 August 2010 for a term of one year subject to termination by either party giving not less than three months' written notice for an annual fee of HK\$1,300,000. He may receive discretionary management bonus to be determined by the Board, but the aggregate amount of the management bonus payable to the then Directors in respect of any financial year of the Company shall not exceed 5% of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items and the payment of any such bonus) in respect of that financial year.

Mr. Tang Chin Wan, an Executive Director, has entered into a service contract with the Company on 22 September 2010 for a term of one year subject to termination by either party giving not less than three months' written notice for an annual fee of HK\$400,000. He may receive discretionary management bonus to be determined by the Board, but the aggregate amount of the management bonus payable to the then Directors in respect of any financial year of the Company shall not exceed 5% of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items and the payment of any such bonus) in respect of that financial year.

Mr. Kwong Ping Man, an Independent Non-executive Director, has entered into a service contract with the Company on 6 March 2011 for a term of one year for an annual fee of HK\$240,000. Mr. Martin He, an Independent Non-executive Director, has entered into a service contract with the Company on 3 September 2010 for a term of two years for an annual fee of HK\$216,000. Mr. Mu Xiangming, an Independent Non-executive Director, has entered into a service contract with the Company on 8 June 2009 for a term of two years for an annual fee of HK\$180,000.

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

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during or at the end of the Year.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31 December 2010, none of the Directors and Chief Executive had or was deemed to have any 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

CONNECTED TRANSACTIONS

Save as disclosed in note 36 "Related Party Transactions" to the financial statements and the paragraph headed "Disclosures pursuant to Rules 13.21 and 13.22 of the Listing Rules" above, there was no connected transactions of the Group that need to be disclosed pursuant to Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 12 to 18.

AUDIT COMMITTEE

The Company has an audit committee in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control system and providing advice and comments to the Board. The Audit Committee consists of three Independent Non-executive Directors of the Company.

The Audit Committee of the Company has reviewed the annual results of the Group for the Year.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to various court orders issued, certain assets of the Group amounting to approximately HK\$63,886,000 were frozen until full repayments were made to the suppliers. In February 2011, the asset-freezing orders on buildings, prepaid land premiums and investment property of the Group with an aggregate carrying amount of HK\$61,932,000 were released and replaced by properties owned by certain staff of the Group and a relative of Mr. Zhang, the controlling beneficial shareholder and a former executive director of the Company. Details of the court orders are set out in Note 27 "Trade and Bills Payable" to the consolidated financial statements.

A loan for HKD15,000,000 from an independent third party, Kingston Finance Limited bears interest at 12% per annum is repayable on or before 2 February 2011. In March 2011, the maturity date of this loan was extended to 30 Jun 2011. Details of the loan are set out in Note 29 "Other Loans" to the financial statements.

Save for the above mentioned, there was no significant events occurring after the reporting period.

Directors' Report

AUDITORS

BDO Limited was appointed as the auditor of the Company on 11 February 2009 following the resignation of Ernst & Young with effect from 9 January 2009. There is no other change in auditor of the Company in the past 3 years. BDO Limited will retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment as auditor of the Company will be proposed at the forthcoming AGM.

SUSPENSION OF TRADING IN THE SHARES

At the direction of the Stock Exchange, trading in the MEK Shares was suspended from 9:30 a.m. on 14 February 2008 and will remain suspended until further notice. Until satisfaction of all the resumption conditions set by the Stock Exchange, trading in the MEK Shares will continue to be suspended.

The Company has engaged an independent accounting firm in completing three individual internal control reviews covering on the Subject Matters, the Track of Trade Receivables and the whole business operation of the Company. The review reports have all been submitted to the Listing Division before the end of the Reporting Year.

Reference is made to the announcement of the Company dated 2 November 2009, the Board announced that the controlling Shareholder has granted the options over 300,000,000 Shares, representing 75% of the existing issued share capital of the Company, to an independent third party. On 30 July 2010, the controlling shareholder has informed the Company that due to the change of the development strategy of the Grantee, the parties to the Option Deed mutually agreed to terminate the Option Deed and entered into a termination agreement.

On 1 December 2010 the Company as the borrower and New Prime Holdings Limited (being a wholly owned subsidiary of CWA) as the lender entered into a Loan Agreement pursuant to which the Investor agreed to make available to the Company a Loan up to a principal amount of HK\$100,000,000 in cash. The Company as issuer and the Investor as subscriber also entered into a Subscription Agreement, pursuant to which the Company has agreed to issue and the Investor has agreed to subscribe for 1,000,000,000 Subscription Shares, Subject to the fulfillment (or waiver by the Investor) of conditions precedent of the Subscription Agreement on or before 31 March 2011 (the date was further extended to 30 June 2011) the Subscription Price is to be satisfied by way of offsetting against the sums owed by the Company to the Investor under the Loan Agreement. One of the precedent conditions for the completion of the Subscription is the Stock Exchange having granted or stated that it will grant (either unconditionally or subject only to conditions to which MEK and the Investor do not reasonably object) approval for (i) the Resumption of Trading; and (ii) the listing of and permission to deal in the Subscription Shares.

The Company submitted the Resumption Proposal to The Stock Exchange on 31 March, 2011. The Resumption Proposal comprises a fund raising exercise in the amount of HK\$150 million by way of the Open Offer to be underwritten by independent underwriters under which, all Shareholders will be able to participate if they wish to avoid their shareholding percentage from being diluted. The subscription price under the Open offer is HK\$0.10 per share which is equivalent to the subscription price of the Investor under the Subscription. The Resumption Proposal, if successfully implemented, will demonstrate to the Listing Division that the Company is and will be able to comply with, among others, Rule 13.24 of the Listing Rules. In addition, the Resumption Proposal also sets out the action and expected timeframe for addressing all the issues raised by the Stock Exchange.

On Behalf of the Board

Leung Koon Sing
Executive Director

Hong Kong
25 March 2011

Independent Auditor's Report



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TO THE SHAREHOLDERS OF MITSUMARU EAST KIT (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Mitsumaru East Kit (Holdings) Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 29 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention in Note 2.1 to the consolidated financial statements, which indicates the Group incurred a loss of approximately HK\$50,378,000 for the year ended 31 December 2010, as of that date, the Company and the Group had net current liabilities of approximately HK\$85,724,000 and HK\$208,303,000, respectively and net liabilities of approximately HK\$85,724,000 and HK\$119,469,000, respectively. In addition, as disclosed in Note 27 to the consolidated financial statements, certain trade creditors of the Group have taken legal actions against two of the Company's subsidiaries in the People's Republic of China in order to recover from the Group overdue balances of approximately HK\$28,400,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern.

BDO Limited

Certified Public Accountants

Li Yin Fan

Practising Certificate Number P03113

Hong Kong, 25 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Turnover	5	124,098	167,518
Cost of sales		(120,665)	(167,734)
Gross profit/(loss)		3,433	(216)
Other income and gains	6	6,305	6,426
Selling and distribution costs		(4,651)	(6,561)
Administrative expenses		(35,231)	(50,526)
Other operating expenses		(11,000)	(28,188)
Share of loss of an associate		(5,914)	(7,302)
Finance costs	7	(3,831)	(2,314)
Loss before income tax	8	(50,889)	(88,681)
Income tax credit	11	511	474
Loss for the year		(50,378)	(88,207)
Other comprehensive income, after tax			
Reclassification of exchange fluctuation reserve on disposal of subsidiaries		—	798
Gain on revaluation of buildings		367	1,236
Exchange differences on translating foreign operations		670	10,896
Other comprehensive income, net of tax	14	1,037	12,930
Total comprehensive income for the year		(49,341)	(75,277)
Loss attributable to:			
— Owners of the Company		(49,749)	(88,564)
— Non-controlling interests		(629)	357
		(50,378)	(88,207)
Total comprehensive income attributable to:			
— Owners of the Company		(48,738)	(75,638)
— Non-controlling interests		(603)	361
		(49,341)	(75,277)
Loss per share	13		
— Basic and diluted		HK12.4 cents	HK22.1 cents

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Property, plant and equipment	15	71,750	89,885
Investment property	16	11,786	—
Prepaid land premiums	17	8,133	8,131
Golf club membership	18	360	360
Interests in associates	20	2,772	8,559
Available-for-sale investments	21	226	340
Total non-current assets		95,027	107,275
Current assets			
Inventories	22	28,830	29,652
Trade and notes receivables	23	16,329	15,665
Prepayments, deposits and other receivables	24	7,090	5,955
Restricted deposits	25	—	227
Pledged deposits	26	—	881
Cash and cash equivalents	26	86,250	4,943
Total current assets		138,499	57,323
Current liabilities			
Trade and bills payables	27	152,876	161,051
Other payables, accrued expenses and deposits received		27,082	20,958
Interest-bearing bank loans	28	—	22,760
Other loans	29	161,205	23,794
Subscription right derivative	30	4,691	—
Tax payable		948	924
Total current liabilities		346,802	229,487
Net current liabilities		(208,303)	(172,164)
Total assets less current liabilities carried forward		(113,276)	(64,889)

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Total assets less current liabilities brought forward		(113,276)	(64,889)
Non-current liabilities			
Deferred tax liabilities	31	6,193	4,111
Other loans	29	—	1,128
Total non-current liabilities		6,193	5,239
Net liabilities		(119,469)	(70,128)
Equity attributable to owners of the Company			
Issued capital	32	40,000	40,000
Reserves	33(a)	(160,243)	(111,505)
		(120,243)	(71,505)
Non-controlling interests		774	1,377
Total deficits		(119,469)	(70,128)

On behalf of the Board

Leung Koon Sing
Director

Tang Chin Wan
Director

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Interests in subsidiaries	19	—	—
Available-for-sale investments	21	—	—
Total non-current assets		—	—
Current assets			
Deposits and other receivables	24	181	109
Amount due from a subsidiary	19	6,031	—
Cash and cash equivalents	26	63,717	900
Total current assets		69,929	1,009
Current liabilities			
Other payables and accrued expenses		5,058	4,738
Other loans	29	145,904	4,066
Subscription right derivative	30	4,691	—
Total current liabilities		155,653	8,804
Net current liabilities		(85,724)	(7,795)
Total assets less current liabilities		(85,724)	(7,795)
Non-current liabilities			
Other loans	29	—	1,128
Total non-current liabilities		—	1,128
Net liabilities		(85,724)	(8,923)
Equity			
Issued capital	32	40,000	40,000
Reserves	33(b)	(125,724)	(48,923)
Total deficits		(85,724)	(8,923)

On behalf of the Board

Leung Koon Sing
Director

Tang Chin Wan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company											Total equity/ (deficits) HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Pre-IPO share option reserve HK\$'000	Contributed surplus HK\$'000	Statutory surplus reserve HK\$'000	Expansion reserve HK\$'000	Buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
At 1 January 2009	40,000	52,557	5,494	4,990	28,419	701	19,541	6,410	(153,979)	4,133	1,016	5,149
Profit for the year	—	—	—	—	—	—	—	—	(88,564)	(88,564)	357	(88,207)
Other comprehensive income (Note 14)	—	—	—	—	—	—	1,236	11,690	—	12,926	4	12,930
Total comprehensive income for the year	—	—	—	—	—	—	1,236	11,690	(88,564)	(75,638)	361	(75,277)
Transfer between reserves upon disposal of a property	—	—	—	—	—	—	(1,016)	—	1,016	—	—	—
Share options lapsed during the year	—	—	(333)	—	—	—	—	—	333	—	—	—
At 31 December 2009 and 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)
Profit for the year	—	—	—	—	—	—	—	—	(49,749)	(49,749)	(629)	(50,378)
Other comprehensive income (Note 14)	—	—	—	—	—	—	367	644	—	1,011	26	1,037
Total comprehensive income for the year	—	—	—	—	—	—	367	644	(49,749)	(48,738)	(603)	(49,341)
Share options lapsed during the year	—	—	(273)	—	—	—	—	—	273	—	—	—
At 31 December 2010	40,000	52,557*	4,888*	4,990*	28,419*	701*	20,128*	18,744*	(290,670)*	(120,243)	774	(119,469)

* These reserve accounts comprise the consolidated deficit in reserves of HK\$160,243,000 (2009: HK\$111,505,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
Cash flows from operating activities		
Loss before income tax	(50,889)	(88,681)
Adjustments for:		
Share of loss of an associate	5,914	7,302
Impairment of trade receivables	927	8,522
Interest income	(23)	(1,104)
Fair value change of a subscription right derivative	(1,390)	—
Gain on disposals of subsidiaries, net	—	(3,734)
Gain on disposal of other assets	—	(363)
Impairment of amount due from an associate	59	168
(Reversal)/provision of impairment of other receivables	(113)	336
Impairment of property, plant and equipment	885	14,654
Impairment of an available-for-sale investment	125	632
Finance costs	3,831	2,314
Loss on disposal of property, plant and equipment	157	603
Depreciation of property, plant and equipment	10,406	13,571
Depreciation of investment property	740	—
Amortisation of prepaid land premiums	208	206
(Reversal of write-down)/write-down of inventories, net	(298)	6,348
Operating loss before working capital changes	(29,461)	(39,226)
Decrease in inventories	1,982	221
(Increase)/decrease in trade and notes receivables	(1,245)	46,721
(Increase)/decrease in prepayments, deposits and other receivables	(919)	12,677
Decrease in trade and bills payables	(12,390)	(137,479)
Increase/(decrease) in other payables, accrued expenses and deposits received	3,580	(7,117)
Cash used in operations	(38,453)	(124,203)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
Cash used in operations	(38,453)	(124,203)
China corporate income tax refund, net	—	157
Net cash outflow from operating activities	(38,453)	(124,046)
Cash flows from investing activities		
Interest received	23	1,104
Purchases of property, plant and equipment	(2,320)	(311)
Acquisition of an associate	—	(740)
Proceeds from disposal of property, plant and equipment	50	1,483
Proceeds on disposal of other assets	—	4,800
Disposal of a subsidiary, net of cash disposed of (Note 34)	—	(2,728)
Decrease/(increase) in restricted deposits	227	(227)
Net cash (outflow)/inflow from investing activities	(2,020)	3,381
Cash flows from financing activities		
Government grant received	2,297	—
New other loans from third parties	156,340	19,297
Repayment of other loans from third parties	(11,300)	—
Repayment of bank loans	(22,760)	(34,545)
New bank loans	—	32,547
Repayment of advances from the controlling beneficial shareholder, net	(3,711)	—
Advances from the controlling beneficial shareholder, net	—	1,629
Decrease in pledged deposits	881	56,815
Interest paid	(2,078)	(2,069)
Net cash inflow from financing activities	119,669	73,674
Net increase/(decrease) in cash and cash equivalents	79,196	(46,991)
Cash and cash equivalents at beginning of year	4,943	42,853
Effect of foreign exchange rate changes, net	2,111	9,081
Cash and cash equivalents at end of year (Note 26)	86,250	4,943

Notes to the Financial Statements

31 December 2010

1. CORPORATE INFORMATION

Mitsumaru East Kit (Holdings) Limited (“the Company”) is a public limited liability company incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal place of business of the Company is at Suite 5005-5006 on 50/F of Central Plaza, No. 18 Harbour Road, Wanchai, Hong Kong.

The Company and its subsidiaries (together referred to as the “Group”) are engaged in the design of the chassis of Cathode Ray Tube (“CRT”) and Liquid Crystal Display (“LCD”) colour televisions, and the trading of related components, and the assembling of colour television sets.

The Company’s holding company is Z-Idea Company Limited (“Z-Idea”), a company incorporated in the British Virgin Islands (the “BVI”), which is regarded by the Company’s directors (the “Directors”) as the Company’s ultimate holding company.

2.1 BASIS OF PRESENTATION

Going Concern

As at 31 December 2010, the Group had net current liabilities and net liabilities of approximately HK\$208,303,000 (2009: HK\$172,164,000) and HK\$119,469,000 (2009: HK\$70,128,000), respectively; and the Company had net current liabilities and net liabilities of approximately HK\$85,724,000 (2009: HK\$7,795,000) and HK\$85,724,000 (2009: HK\$8,923,000), respectively. The Group incurred a loss of approximately HK\$50,378,000 for the year ended 31 December 2010 (2009: HK\$88,207,000). As disclosed in Note 27 to the consolidated financial statements, certain creditors of two of the Company’s subsidiaries have taken legal actions to recover from the Group overdue balances of approximately HK\$28,400,000.

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity and financial positions of the Group and of the Company in light of the conditions described in the preceding paragraph. The Directors are taking active measures to improve the working capital of both the Group and the Company as described below.

- As detailed in Note 30, on 1 December 2010, the Company and New Prime Holding Limited (“New Prime”), a wholly owned subsidiary of China Water Affairs Group Limited (“CWA”), a company listed on the Stock Exchange, entered into a loan agreement (the “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 (the “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, inter alia, the resumption of trading of the Company’s shares to be mentioned below. As at 31 December 2010, the unutilised proceeds from the Loan was approximately HK\$63 million. Further details of the Loan are set out in Note 30;

Notes to the Financial Statements

31 December 2010

2.1 BASIS OF PRESENTATION *(continued)*

Going Concern *(continued)*

- The Directors are currently preparing a Resumption Proposal for submission to the Stock Exchange for application of resumption of trading of the Company's shares. With successful application of trading of the Company's shares, the Group will have additional financing from a proposed issue of the Company's new shares on the basis of 15 shares for every 4 shares held by certain qualifying shareholders of the Company (the "Open Offer") to be conducted by the Company to raise no less than HK\$150 million subject to the shareholders' approval as follows:
 - (a) The Company and certain underwriters entered into a non-legally binding letter of intent and pursuant to which these underwriters have expressed intention to fully underwrite 1,500,000,000 offer shares under the Open Offer in an aggregate amount of HK\$150 million; and
 - (b) The Company and New Prime entered into a legally binding underwriting letter and pursuant to which New Prime unconditionally and irrevocably undertook to act as the underwriter for the whole amount of the Open Offer in cash in the event that the above underwriters fail to enter into the underwriting agreement with the Company in relation to the Open Offer;
- The Group is in the process of negotiating with a bank in the People's Republic of China (the "PRC") to obtain new banking facility of approximately Renminbi ("RMB") 45 million (equivalent to approximately HK\$53 million) to finance the Group's working capital requirements;
- The Group is in the process of reaching an agreement for debts restructuring with certain trade creditors who had applied to the courts to freeze the assets of two of the Company's subsidiaries. Up to the date of approval of these consolidated financial statements, the asset-freezing orders on the Group's land and buildings and investment properties with an aggregate carrying amount of HK\$61,932,000 were successfully released and trade payables to creditors under litigation amounting to approximately HK\$4,400,000 were settled during the year as further detailed in Note 27 to the consolidated financial statements;
- Certain independent third parties advanced to the Group other loans of approximately HK\$59,494,000 as at 31 December 2010 as further detailed in Note 29 to the consolidated financial statements; and
- The Group has been taking stringent cost controls over general and administrative expenses.

The Directors are confident that both the Group and the Company will be able to meet their financial obligations as they fall due for twelve months from 31 December 2010, on the basis that (a) the above share subscription by New Prime can be completed; (b) the above financing from the Open Offer can be successfully obtained; (c) the above new PRC banking facility can be secured; (d) the Group's future operations can generate sufficient cash flows; and (e) the Group is able to successfully implement the cost control in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2010 on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

Notes to the Financial Statements

31 December 2010

2.2 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain buildings and derivative financial instruments, which are measured at revalued amount and fair values respectively as explained in the accounting policies set out below.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the functional currency of the Company. The functional currencies of its principal subsidiaries include RMB and HK\$.

2.3 ADOPTION OF HKFRSs

(a) Adoption of new and revised HKFRSs – effective 1 January 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

Notes to the Financial Statements

31 December 2010

2.3 ADOPTION OF HKFRSs *(continued)*

(a) Adoption of new and revised HKFRSs – effective 1 January 2010 *(continued)*

Except as explained below, the adoption of these new and revised HKFRSs has had no significant impact on the Group's consolidated financial statements.

HKFRS 3 (Revised) – Business Combinations and HKAS 27(Revised) – Consolidated and Separate Financial Statement

The revised accounting policies are described in note 2.4(a) to the consolidated financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the consolidated financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interests in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the consolidated financial statements in the current year as there has been no change in the ownership interest of any subsidiary during the year.

HKAS 17 (Amendments) – Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause. The adoption of this Interpretation has had no effect on the Group's financial statements.

Notes to the Financial Statements

31 December 2010

2.3 ADOPTION OF HKFRSs *(continued)*

(b) Potential impact arising on HKFRSs not yet effective

The following new or 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.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ^{1&2}
HKAS 24 (Revised)	Related Party Disclosures ²
Amendments to HKFRS 7	Disclosure - Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴

¹ Effective for annual periods beginning on or after 1 July 2010

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 July 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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 non-trade equity investments, which the entity will have a choice to recognise the 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 Group is in the process of making an assessment of the potential impact of other new and revised HKFRSs and the Director so far concluded that the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test in accordance with HKAS 36, by comparing its carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at revalued amount, being its fair value less accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter charged to profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the buildings revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the buildings revaluation reserve to retained earnings.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates used for this purpose are as follows:

Buildings	2% — 18%
Plant and machinery	9% — 20%
Motor vehicles	9% — 30%
Office equipment	9% — 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production, supply of goods or services or for administrative purposes. Investment property are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment property over their estimated useful life of 15 years using straight-line method.

If an item of property, plant and equipment becomes an investment property because of its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of property, plant and equipment.

(f) Club membership

Club membership is stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club membership.

(g) Prepaid land premiums

Prepaid land premiums under operating leases represent up-front payments to acquire long-term interests in leasee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(h) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- club membership;
- investment properties;
- prepaid land premiums; and
- investments in subsidiaries and associates.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of non-financial assets *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

(i) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(ii) Impairment loss on financial assets

For loans and receivables

The Group assesses, at the end of each reporting period, whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised subject to a restriction that the carrying amount of the asset at the date the impairment is does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities designated upon initial recognition as at fair value through profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade, bills and other payables and bank and other loans are initially recognised at fair value net of directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iv) Loan with a subscription right derivative

The Group entered into a loan and the related share subscription agreements as detailed in Note 30, of which the share subscription right exhibits characteristics of an embedded derivative and hence was separated from the loan. On initial recognition, the derivative component is measured at fair value and presented as a derivative financial instrument. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component.

In subsequent periods, the liability component of the loan is carried at amortised cost using the effective interest method, until extinguished on conversion or maturity. The subscription right derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the loan is converted, the carrying amount of the liability component together with the fair value of the subscription right derivative at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the loan is repaid, and difference between the loan repayment and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that related to the loan and the related share subscription agreements are allocated to the liability and subscription right components in proportion to the allocation of the proceeds. Transaction costs relating to the subscription right derivative is recognised in profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the loan using the effective interest method.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(l) Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss or in other comprehensive income if it relates to items that are recognised in other comprehensive income in the same or a different period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Income taxes *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(m) Foreign currency

Transactions entered into by the Company/group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Foreign currency *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised in other comprehensive income and accumulated in foreign exchange reserve. Exchange differences recognised in the profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

(n) Share-based payments

The Company operates share option schemes (including pre-IPO share option scheme) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by independent professionally qualified valuers using binomial model, further details of which are given in note 37. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at the end of reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Share-based payments *(continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(o) Other employee benefits

Pension schemes

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

The employees of the Company's subsidiaries, namely, East Kit Electronic (China) Co., Ltd. ("East Kit (China)"), East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)"), Mitsumaru Electronic (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)") and Shenzhen Mitsumaru Electrical Co., Ltd. ("Mitsumaru (Shenzhen)"), which operate in the PRC are required to participate in a central pension scheme (the "CPB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a percentage ranging from 30% to 42% of their payroll costs to the CPB Scheme. The only obligation of the Group with respect to the CPB Scheme is the ongoing required contributions under the CPB Scheme which are charged to profit or loss as they become payable in accordance with the rules.

Notes to the Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in the profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire payments are included in the cost of land and buildings as a finance lease in property, plant and equipment.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Financial Statements

31 December 2010

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Impairment of investments in associates and subsidiaries

The Company/Group tests whether the investments in associates and subsidiaries have suffered any impairment in accordance with accounting policies stated in note 2.4(h), when there are indicators that the carrying amounts may not be recoverable. The amount of impairment loss is measured as the excess of the asset's carrying amount over its recoverable amount, which is the value in use. Management estimates the expected future cash flows from the assets and chooses a suitable discount rate in order to calculate the present value of these cash flows.

Farther details of impairment of investments in subsidiaries are set out in Note 19.

(ii) Impairment of other non-financial assets

The Group assesses whether there are any indicators of impairment for all other non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, additional impairment loss may arise. An impairment of property, plant and equipment of approximately HK\$885,000 (2009: HK\$14,654,000) was recognised for the year.

(iii) Impairment of receivables

The Group recognises an impairment loss on receivables for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the trade receivables balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated. Details of movements in provision for impairment of the Company's amounts due from subsidiaries and the Group's trade receivables are disclosed in Notes 19 and 23 respectively.

(iv) Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available which the losses can be utilised. Significant management's judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The amounts of unrecognised tax losses arising in Hong Kong and the PRC as at 31 December 2010 are set out in Note 31.

Notes to the Financial Statements

31 December 2010

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(v) Fair value of derivative financial instruments

As explained in Note 30, the Directors use their judgement in selecting an appropriate valuation technique for the subscription right derivative not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Assumptions are made based on quoted market rates at the end of each reporting period and adjusted for specific features of the instrument. Any changes in these underlying assumptions will effect the fair value of financial instruments.

(vi) Estimated write-down of inventories

The Group writes down inventories to net realisable value based on based on the current market conditions and the historical experience of selling inventory items with similar nature. Any change in the assumptions would increase or decrease the amount of inventory write-down or the related reversal of write-down made in prior years and affect the Group's net assets value. The Group recognised a net reversal of inventory write-down of approximately HK\$298,000 for the year (2009: a net write-down of inventories of HK\$6,348,000).

(vii) Estimate of value of buildings

The Group's buildings are stated at revalued amount at the end of each reporting period based on the appraised market value provided by independent professional valuers. The fair value of the buildings was estimated using the depreciated replacement cost approach. Such approach requires an estimate of the new replacement costs of the buildings and structures of the properties from which deductions are made to allow for age, conditions and functional obsolescence, and is based on certain assumptions, which are subject to uncertainty. The carrying amount of the Group's buildings as at 31 December 2010 was approximately HK\$55,593,000 (2009: HK\$67,495,000).

4. 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.

(i) 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.

Notes to the Financial Statements

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4. SEGMENT INFORMATION (continued)

(i) Reportable segments (continued)

(a) Business Segments

	2010			
	Design and assembly HK\$'000	Assembly HK\$'000	Trading HK\$'000	Total HK\$'000
Reportable segment revenue	54,096	31,820	48,200	134,116
Inter-segment revenue	(1,418)	(278)	(8,322)	(10,018)
Revenue from external customers	52,678	31,542	39,878	124,098
Reportable segment loss	(32,511)	(3,946)	(7,483)	(43,940)
Interest expense	(1,168)	—	—	(1,168)
Depreciation of property, plant and equipment	(8,570)	(1,458)	(378)	(10,406)
Depreciation of investment properties	(740)	—	—	(740)
Amortisation of prepaid land premiums	(156)	(52)	—	(208)
Impairment of property, plant and equipment	—	(158)	(727)	(885)
Reversal of impairment/ (impairment) of trade receivables	543	(555)	(915)	(927)
Impairment of an available-for-sale Investment	(125)	—	—	(125)
Income tax credit	398	113	—	511
Share of loss of an associate	(5,914)	—	—	(5,914)
Reportable segment assets	110,547	34,031	33,642	178,220
Additions to property, plant and equipment	1,350	9	42	1,401
Reportable segment liabilities	(124,275)	(13,751)	(88,926)	(226,952)

Notes to the Financial Statements

31 December 2010

4. SEGMENT INFORMATION (continued)

(i) Reportable segments (continued)

(a) Business Segments (continued)

	2009			
	Design and assembly HK\$'000	Assembly HK\$'000	Trading HK\$'000	Total HK\$'000
Reportable segment revenue	85,191	27,120	86,068	198,379
Inter-segment revenue	(7,944)	(5,757)	(17,160)	(30,861)
Revenue from external customers	77,247	21,363	68,908	167,518
Reportable segment profit/(loss)	(49,201)	1,832	(25,617)	(72,986)
Interest expense	(1,495)	(217)	(31)	(1,743)
Depreciation of property, plant and equipment	(10,268)	(1,407)	(1,896)	(13,571)
Amortisation of prepaid land premiums	(154)	(52)	—	(206)
Impairment of property, plant and equipment	(6,591)	(190)	(7,873)	(14,654)
Impairment of trade receivables	(2,633)	—	(5,889)	(8,522)
Impairment of available-for-sale Investments	(400)	—	—	(400)
Share of loss of an associate	(7,302)	—	—	(7,302)
Income tax credit	278	81	115	474
Reportable segment assets	207,337	38,775	23,441	269,553
Additions to property, plant and equipment	296	2	13	311
Reportable segment liabilities	(189,479)	(21,683)	(141,397)	(352,559)

Notes to the Financial Statements

31 December 2010

4. SEGMENT INFORMATION *(continued)*

(i) Reportable segments *(continued)*

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	2010 HK\$'000	2009 HK\$'000
Revenue		
Reportable segment revenue	134,116	198,379
Elimination of inter-segment revenue	(10,018)	(30,861)
Consolidated revenue	124,098	167,518
Loss before income tax		
Reportable segment loss	(43,940)	(72,986)
Unallocated corporate expenses	(4,452)	(15,344)
Unallocated finance costs	(2,497)	(351)
Consolidated loss before income tax	(50,889)	(88,681)
Assets		
Reportable segment assets	178,220	269,553
Elimination of inter-segment receivables	(8,988)	(107,382)
Unallocated cash and cash equivalents	64,061	2,204
Other unallocated corporate assets	233	223
Consolidated total assets	233,526	164,598
Liabilities		
Reportable segment liabilities	(226,952)	(352,559)
Elimination of inter-segment payables	25,378	125,102
Other loans	(145,904)	(5,194)
Subscription right derivative	(4,691)	—
Unallocated corporate liabilities	(826)	(2,075)
Consolidated total liabilities	(352,995)	(234,726)

Notes to the Financial Statements

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4. SEGMENT INFORMATION *(continued)*

(ii) Geographical information

The following tables provide an analysis of the Group's revenue from external customers and non-current assets other than financial instruments ("Specified non-current assets").

	Revenue from external customers	
	2010 HK\$'000	2009 HK\$'000
PRC	96,024	120,411
Asia (other than the PRC)	19,183	44,511
Europe	3,219	1,264
South America	5,621	41
Others	51	1,291
	124,098	167,518

	Specified non-current assets	
	2010 HK\$'000	2009 HK\$'000
PRC	93,837	104,739
Hong Kong	964	2,196
	94,801	106,935

(iii) Major customer

Revenue from a customer of the Group amounted to approximately HK\$27,971,000 (2009: HK\$14,746,000), which represents 10% or more of the Group's revenue and included under the Assembly reportable segment.

For the year 2009, there was no single external customer with transactions amounted to 10% or more of the Group's revenue.

5. TURNOVER

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.

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6. OTHER INCOME AND GAINS

	2010 HK\$'000	2009 HK\$'000
Bank interest income	23	1,104
Rental income from investment properties	1,808	—
Fair value change of a subscription right derivative	1,390	—
Gain on settlement of trade payables by inventories	1,876	—
Write-back on wavier of trade payables	569	—
Gain on disposals of subsidiaries, net (Note 34)	—	3,734
Gain on disposal of other assets	—	363
Others	639	1,225
	6,305	6,426

7. FINANCE COSTS

	2010 HK\$'000	2009 HK\$'000
Interest on:		
— bank loans wholly repayable within five years	1,168	1,743
— loans from the controlling beneficial shareholder	415	326
— loans from third parties	1,213	—
— loan from New Prime	1,035	—
— overdue trade payables	—	245
	3,831	2,314

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8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2010 HK\$'000	2009 HK\$'000
Cost of inventories sold	107,096	147,179
Write-down of inventories	1,130	12,347
Reversal of inventory write-down (Note (a))	(1,428)	(5,999)
Costs of inventories recognised as expense	106,798	153,527
Employee benefit expenses (including directors' remuneration — Note 9)		
— Wages and salaries	18,283	21,818
— Provision for unpaid leaves	63	—
— Pension scheme contributions	4,445	6,152
	22,791	27,970
Depreciation of property, plant and equipment	10,406	13,571
Depreciation of investment properties	740	—
Amortisation of prepaid land premiums	208	206
Minimum lease payments under operating leases in respect of land and buildings	3,368	3,173
Auditor's remuneration		
— current year	1,000	1,024
— prior years' underprovision	57	400
Research and development costs	2,830	—
Impairment of property, plant and equipment (note 15)	885	14,654
Impairment of an available-for-sale investment	125	632
Loss on disposal of property, plant and equipment	157	603
Exchange losses, net	4,291	3,017
Impairment of amount due from an associate	59	168
Impairment of trade receivables, net	927	8,522
Impairment of other receivables	—	336
Reversal of impairment of other receivables, net	(113)	—

Note (a): The reversal of inventory write-down arising from an increase in net realisable value was caused by the increase in estimated scrap value.

Notes to the Financial Statements

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9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010 HK\$'000	2009 HK\$'000
Fees	636	600
Other emoluments:		
Salaries, allowances and benefits in kind	2,546	4,273
Pension scheme contributions	2	12
	2,548	4,285
	3,184	4,885

(a) Independent Non-Executive Directors

The fees paid to Independent Non-Executive Directors during the year were as follows:

	2010 HK\$'000	2009 HK\$'000
Mr. Mu Xiangming	180	187
Mr. Martin He	216	216
Mr. Kwong Ping Man	240	197
	636	600

There were no other emoluments payable to the Independent Non-Executive Directors during the year (2009: Nil).

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9. DIRECTORS' REMUNERATION (continued)

(b) Executive Directors

	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2010			
Mr. Zhang Shuyang	677	2	679
Mr. Leung Koon Sing	1,771	—	1,771
Mr. Tang Chin Wan	98	—	98
	2,546	2	2,548
2009			
Mr. Zhang Shuyang	2,977	12	2,989
Mr. Leung Koon Sing	1,296	—	1,296
	4,273	12	4,285

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

The above Executive Directors' remuneration represents the compensation of key management personnel of the Group.

10. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group during the year, two (2009: two) were Directors of the Company whose emoluments are included in the disclosures in Note 9 above. The emoluments of the remaining three (2009: three) individuals were as follows:

	2010 HK\$'000	2009 HK\$'000
Salaries, allowances and benefits in kind	1,267	1,501
Contributions to pension scheme	12	12
	1,279	1,513

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

	Number of employees	
	2010	2009
Nil to HK\$1,000,000	3	3

During the year, no share options were granted under the Company's share option schemes to the two non-director, highest paid employees in respect of their services to the Group.

Notes to the Financial Statements

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11. INCOME TAX CREDIT

No provision of Hong Kong Profits Tax and the PRC Income Tax has been made in the consolidated financial statements as the Group incurred losses for the current and prior years in both Hong Kong and the PRC.

The tax rate of corporate income tax ("CIT") of subsidiaries operating in the PRC is at a standard rate of 25% except two subsidiaries, East Kit Electronic (Shanghai) Co., Ltd. and East Kit Electronic (China) Co., Ltd., which were granted a partial exemption from the national and local portions of CIT for a period of three years from 2008, as they qualified as an "Advanced Technology Enterprise" pursuant to the tax regulation in the PRC. The CIT rate applicable to East Kit Electronic (Shanghai) Co., Ltd. and East Kit Electronic (China) Co., Ltd. for the year was 15% (2009: 15%). The CIT rate applicable to Mitsumeru Electronical (Wuhu) Co., Ltd. for the year was 25% (2009: 25%).

The amount of income tax includes in profit or loss represents:

	2010 HK\$'000	2009 HK\$'000
<i>Current tax:</i>		
Under/(over)-provision in respect of prior years		
– HK	–	(116)
– PRC	–	30
<i>Deferred tax (Note 31)</i>	– (511)	(86) (388)
Total income tax credit	(511)	(474)

The income tax credit for the year can be reconciled to the loss for the year multiplied by applicable tax rate as follows:

	2010 HK\$'000	2009 HK\$'000
Loss before income tax credit	(50,889)	(88,681)
Tax calculated at the domestic tax rate of 16.5% (2009: 16.5%)	(8,397)	(14,632)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(8)	681
Tax effect of share of loss of an associate	887	1,205
Tax effect of revenue not taxable for tax purposes	(266)	(8,726)
Tax effect of expenses not deductible for tax purposes	1,944	11,966
Tax effect of tax losses not recognised	3,347	9,643
Tax effect of temporary differences not recognised	1,982	(469)
Utilisation of tax losses not recognised previously	–	(56)
Over-provision in respect of prior years	–	(86)
Income tax credit	(511)	(474)

In addition to the amount charged to the profit or loss, deferred tax relating to the revaluation of the Group's buildings during the year has been charged to other comprehensive income (Note 14).

Notes to the Financial Statements

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12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK\$7,822,000 (2009: HK\$11,260,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share for the year is based on the loss for the year attributable to owners of the Company of HK\$49,749,000 (2009: HK\$88,564,000), and 400,000,000 (2009: 400,000,000) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2010 and 2009 is the same as the respective basic loss per share as the outstanding options during both years have an anti-dilutive effect on the basic loss per share for these years.

14. OTHER COMPREHENSIVE INCOME

Tax effects and reclassification adjustments relating to each component of other comprehensive income:

	2010			2009		
	Before-tax amount HK\$'000	Tax expenses HK\$'000	Net-of-tax amount HK\$'000	Before-tax amount HK\$'000	Tax expenses HK\$'000	Net-of-tax amount HK\$'000
Reclassification of exchange fluctuation reserve on disposal of subsidiaries	—	—	—	798	—	798
Exchange differences on translating foreign operations	670	—	670	10,896	—	10,896
Gain on revaluation of buildings	2,861	(2,494)	367	3,391	(2,155)	1,236
	3,531	(2,494)	1,037	15,085	(2,155)	12,930

Notes to the Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
Cost or valuation					
At 1 January 2009	70,251	41,087	10,911	34,480	156,729
Additions at cost	—	2	—	309	311
Disposals	(2,200)	—	(82)	—	(2,282)
Disposal of subsidiary	—	—	—	(582)	(582)
On revaluation	(898)	—	—	—	(898)
Exchange realignments	342	16	37	305	700
At 31 December 2009 and 1 January 2010	67,495	41,105	10,866	34,512	153,978
Transfer to investment property (Note 16)	(12,331)	—	—	—	(12,331)
Additions at cost	—	413	—	988	1,401
Disposals	—	(299)	—	(3,097)	(3,396)
On revaluation	(621)	—	—	—	(621)
Exchange realignments	1,050	653	274	845	2,822
At 31 December 2010	55,593	41,872	11,140	33,248	141,853
Comprising:					
At cost	—	41,872	11,140	33,248	86,260
At 31 December 2010 valuation	55,593	—	—	—	55,593
	55,593	41,872	11,140	33,248	141,853
Accumulated depreciation and impairment					
At 1 January 2009	—	13,638	5,591	21,381	40,610
Depreciation	4,405	4,179	882	4,105	13,571
Eliminated on disposal of subsidiaries	—	—	—	(420)	(420)
Eliminated on disposals	(122)	—	(74)	—	(196)
Impairment loss	—	14,654	—	—	14,654
Eliminated on revaluation	(4,289)	—	—	—	(4,289)
Exchange realignments	6	46	19	92	163
At 31 December 2009 and 1 January 2010	—	32,517	6,418	25,158	64,093
Depreciation	3,424	2,350	887	3,745	10,406
Eliminated on disposals	—	(261)	—	(2,928)	(3,189)
Impairment loss	—	885	—	—	885
Eliminated on revaluation	(3,482)	—	—	—	(3,482)
Exchange realignments	58	509	172	651	1,390
At 31 December 2010	—	36,000	7,477	26,626	70,103
Net book value					
At 31 December 2010	55,593	5,872	3,663	6,622	71,750
At 31 December 2009	67,495	8,588	4,448	9,354	89,885

Notes to the Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2010, certain of the Group's buildings with a carrying amount of HK\$44,098,000 (2009: HK\$56,115,000) were pledged to secure other loans (Note 29) and bank loans (Note 28) granted to the Group and were subject to asset-freezing orders as detailed in Note 27 to the consolidated financial statements. In addition to buildings, other property, plant and equipment as at 31 December 2010 were pledged to secure the Loan from New Prime as detailed in Notes 29 and 30, and motor vehicles with a carrying amount of HK\$1,954,000 were subject to asset-freezing orders as further detailed in Note 27 to the consolidated financial statements.

As at 31 December 2010, the Group's buildings are revalued on a depreciated replacement cost basis by an independent professional valuer, Asset Appraisal Limited. The revaluation surplus net of applicable deferred income taxes is recognised in other comprehensive income and accumulated in buildings revaluation reserve within equity.

Had the revalued buildings been measured on the historical cost basis, their net book value would have been HK\$34,665,000 (2009: HK\$44,621,000).

At the end of the reporting period, the Directors identified certain plant and machinery that have been idled or under-utilised for a prolonged period of time, and based on the value in use calculation, an impairment loss of HK\$885,000 (2009: HK\$14,654,000) is recognised and included in other operating expenses.

Notes to the Financial Statements

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16. INVESTMENT PROPERTY

	Group HK\$'000
Cost	
At 1 January 2009 and 31 December 2009	—
Transferred from property, plant and equipment (Note 15)	12,331
Exchange realignment	207
At 31 December 2010	12,538
Accumulated depreciation	
At 1 January 2009 and 31 December 2009	—
Charge for the year	740
Exchange realignment	12
At 31 December 2010	752
Net book value	
At 31 December 2010	11,786
At 31 December 2009	—

The Group's investment property was situated in the PRC under medium term leases.

As at 31 December 2010, the Directors consider the open market value of the Group's investment property to be approximately HK\$12,272,000. The investment property was leased to third parties under cancellable operating leases.

Investment property was pledged to third parties to secure other loans granted to the Group (Notes 29 and 30) and subject to asset freezing orders as detailed in Note 27 to the consolidated financial statements.

17. PREPAID LAND PREMIUMS

	Group	
	2010 HK\$'000	2009 HK\$'000
The Group's prepaid land premiums comprise land situated outside Hong Kong held under medium term leases	8,345	8,338
Current portion included in prepayments, deposits and other receivables	(212)	(207)
Non-current portion	8,133	8,131

The leasehold land was in the PRC and pledged to secure other loans from third parties (Notes 29 and 30).

As at 31 December 2010, prepaid land premiums with a carrying amount of HK\$6,048,000 (2009: Nil) was subject to asset-freezing orders as detailed in Note 27 to the consolidated financial statements.

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18. GOLF CLUB MEMBERSHIP

	Group	
	2010 HK\$'000	2009 HK\$'000
Cost at 1 January and 31 December	360	360

19. INTERESTS IN SUBSIDIARIES

	Company	
	2010 HK\$'000	2009 HK\$'000
Unlisted shares, at cost	98,948	103,074
Less: Impairment	(98,948)	(103,074)
	—	—
Amounts due from subsidiaries	161,731	140,115
Less: Impairment	(155,700)	(140,115)
	6,031	—

The above impairment losses were recognised during the years ended 31 December 2010 and 2009 because of the sustained loss making conditions of the respective subsidiaries.

The amounts due from subsidiaries are unsecured, interest-free and with no fixed repayment terms. Movements in provision for impairment of amounts due from subsidiaries are as follows:

	2010 HK\$'000	2009 HK\$'000
At 1 January	140,115	140,655
Reclassified to prepayments, deposits and other receivables upon deemed disposal of partial interest in a subsidiary (Note 24)	—	(670)
Impairment loss recognised	15,585	130
At 31 December	155,700	140,115

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19. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mitsumaru East Kit (Group) Limited #	BVI	HK\$1	100	—	Investment holding
Mitsumaru (Holdings) Limited	Hong Kong	Ordinary HK\$100 Deferred HK\$5,000,000	—	100	Investment holding
Mitsumaru (H.K.) Limited	Hong Kong	HK\$10,000	—	100	Trading of components related to colour televisions
East Kit Electronic (China) Co., Ltd. * ("East Kit (China)")	PRC	Paid-up registered US\$11,000,000	—	100	Design of the chassis of colour televisions, assembling of colour televisions and the trading of related components
East Kit Electronic (Shanghai) Co., Ltd. * ("East Kit (Shanghai)")	PRC	Paid-up registered US\$12,650,000	—	100	Design of the chassis of colour televisions, assembling of colour televisions and the trading of related components
Mitsumaru Electronical (Wuhu) Co., Ltd. * ("Mitsumaru (Wuhu)")	PRC	Paid-up registered US\$1,300,000	—	100	Assembling of CRT colour televisions and the trading of related components

* These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC laws.

The statutory financial statements were not audited by BDO Limited or other member firms of the BDO network.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length. None of the subsidiaries had issued any debt securities at the end of reporting period.

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20. INTERESTS IN ASSOCIATES

	Group	
	2010 HK\$'000	2009 HK\$'000
Share of net assets of associates	2,772	8,559

Details of the associates are as follows:

Name	Place of registration and operations	Nominal value of registered and paid-up share capital	Percentage of ownership attributable to the Group	Principal activities
Cyber Opto-Electrical Technology Co., Ltd. *	PRC	Paid-up registered RMB30,800,000	38.5%	Research and development and manufacture of high resolution large screen rear projection display system
Mitsumaru Japan Ltd. * (note 34)	Japan	Paid-up registered JPY52,500,000	41.5%	Trading of electronic components

* Not audited by BDO Limited or other member firms of the BDO global network.

The following table summarises the financial information of the Group's associates, presented on a 100% combined basis, as extracted from their management accounts.

	2010 HK\$'000	2009 HK\$'000
Assets	31,990	41,315
Liabilities	32,993	24,708
Revenue	37,357	32,548
Loss	18,172	21,265

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21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unlisted equity investments, at cost	759	972	—	232
Less: impairment	(533)	(632)	—	(232)
	226	340	—	—

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets.

As at 31 December 2010, unlisted equity investments of the Group with investment costs of HK\$759,000 (2009: HK\$972,000) was stated at cost because the variability in the range of reasonable fair value estimated was so significant that the Directors were of the opinion that their fair values could not be measured reliably.

One of the Group's above investments is a 21.7% equity interests in Shanghai Zhan Cheng Electronic Technology Co. Ltd. This company is not accounted for by the equity accounting method as the Group does not have the power to participate in the Company's operating and financial policies as evidenced by the lack of any direct or indirect representation at board level.

22. INVENTORIES

	Group	
	2010 HK\$'000	2009 HK\$'000
Raw materials	17,817	16,813
Finished goods	11,013	12,839
	28,830	29,652

23. TRADE AND NOTES RECEIVABLES

	Group	
	2010 HK\$'000	2009 HK\$'000
Trade and notes receivables	166,625	164,209
Impairment	(150,296)	(148,544)
	16,329	15,665

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23. TRADE AND NOTES RECEIVABLES (continued)

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 to up to six months for major customers. Each customer has been set with a 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.

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:

	Group	
	2010 HK\$'000	2009 HK\$'000
Within 90 days	10,613	8,257
91 days to 180 days	392	3,786
181 days to 1 year	1,135	3,622
Over 1 year	4,189	—
	16,329	15,665

Movements in provision for impairment of trade receivables are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
At 1 January	148,544	143,899
Impairment losses recognised	3,230	12,453
Reversal of impairment losses previously recognised	(2,303)	(3,931)
Eliminated on disposal of subsidiary	—	(3,000)
Bad debts written off	(1,519)	(1,186)
Exchange realignments	2,344	309
At 31 December	150,296	148,544

The above provision for impairment of trade receivables of HK\$150,296,000 (2009: HK\$148,544,000) was made for individually impaired trade receivables with an aggregate carrying amount of HK\$160,408,000 (2009: HK\$156,000,000). These individually impaired trade receivables include (i) customers that were in financial difficulties and only a portion of the receivables is expected to be recovered and; (ii) certain amounts of the receivables that were in dispute.

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23. TRADE AND NOTES RECEIVABLES (continued)

The ageing of trade debtors which are past due but not impaired are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Less than 1 month past due	5,970	3,062
1 to 3 months past due	4,682	7,558
More than 3 months but less than 12 months past due	4,997	1,857
More than 12 months	175	225
	15,824	12,702

Receivables that were past due but not impaired relate to a number of customers that have a good settlement records with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Prepayments	713	2,569	—	—
Amount due from an associate	59	168	—	670
Deposits and other receivables	9,658	6,780	290	109
	10,430	9,517	290	779
Impairment	(3,340)	(3,562)	(109)	(670)
	7,090	5,955	181	109

The amount due from an associate is unsecured, interest-free and repayable on demand.

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Movements in provision for impairment of deposits and other receivables are as follows:

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At 1 January	3,394	3,058	670	—
Impairment losses recognised	302	336	109	670
Reversal of impairment losses previously recognised	(415)	—	(670)	—
At 31 December	3,281	3,394	109	670

The above provision for impairment of deposits and other receivables was made fully on balances of individually impaired deposits and other receivables. The balances are unsecured and interest-free.

Other than the aforementioned impaired other receivables, none of the above balances are past due nor impaired for which there was no recent history of default.

25. RESTRICTED DEPOSITS

Certain creditors commenced legal actions under the PRC laws against two of the Company's subsidiaries. Pursuant to various court orders as at 31 December 2009, certain bank deposits amounting to HK\$227,000 (Note 27) of those two subsidiaries were restricted as to use.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cash and bank balances		86,250	5,051	63,717	900
Time deposits		—	773	—	—
		86,250	5,824	63,717	900
Less: Pledged time deposits for banking facilities	27	—	(881)	—	—
Cash and cash equivalents		86,250	4,943	63,717	900

Included in cash and bank balances as at 31 December 2010 of the Company and of the Group is a bank deposit of approximately HK\$63,009,000, the use of which is subject to letters of consent from New Prime as pursuant to an Assignment over Accounts dated 1 December 2010.

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

At the end of reporting period, cash and bank balances of the Group denominated in RMB amounted to HK\$1,136,000 (2009: HK\$2,874,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

All pledged time deposits were released during the year.

27. TRADE AND BILLS PAYABLES

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

	Group	
	2010 HK\$'000	2009 HK\$'000
Within 180 days	26,673	44,415
181 days to 1 year	2,227	20,471
1 to 2 years	34,875	81,357
Over 2 years	89,101	14,808
	152,876	161,051

As at 31 December 2010, two PRC subsidiaries of the Company, East Kit (China) and East Kit (Shanghai), were sued by certain suppliers for non-payment of outstanding trade balances. Included in trade and bills payables as at the end of reporting period are trade payable balances of approximately HK\$28,400,000 (2009: HK\$23,000,000) under litigations.

During the year, the Group settled trade payables of approximately HK\$4,400,000 in respect of trade payable balances of approximately HK\$32,800,000 under litigations.

Pursuant to various court orders issued, the Group's bank deposits or assets with an aggregate equivalent value equal to the outstanding trade payables were frozen until full repayment were made to the suppliers. However, there are no specifications of the kinds of frozen assets under the court orders and the Directors are unaware of any assets that cannot be freely used. As at 31 December 2009, the Directors identified certain bank deposit accounts of approximately HK\$227,000 were restricted as to use, and were classified under restricted deposits in the consolidated statement of financial position (Note 25). As at 31 December 2010, the Group's buildings, prepaid land premiums, investment property and motor vehicles with an aggregate carrying amount of HK\$63,886,000 were freezing under court-orders; and in February 2011, the asset-freezing orders on buildings, prepaid land premiums and investment property of the Group with an aggregate carrying amount of HK\$61,932,000 were released and replaced by properties owned by certain staff of the Group and a relative of Mr. Zhang Shuyany ("Mr. Zhang"), the controlling beneficial shareholder and a former executive director of the Company.

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27. TRADE AND BILLS PAYABLES (continued)

Included in the trade and bills payables at 31 December 2009 were balances of HK\$24,284,000 which were secured by a time deposit of HK\$881,000 (Note 26).

28. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group	
			2010 HK\$'000	2009 HK\$'000
Bank loans — current and secured	5.84 — 6.39	2010	—	22,760

At 31 December 2009, the Group's bank loans, together with the banking facilities, were secured by a pledge over the Group's buildings, investment property and prepaid land premiums situated in the PRC, which had an aggregate carrying value at 31 December 2009 of approximately HK\$62,162,000. The related leasehold land element of HK\$6,047,000 was included in the "prepaid land premiums" as set out in Note 17 to the consolidated financial statements (Note 15). These bank loans were fully repaid during the year and the pledge over the Group's buildings, investment property and prepaid land premiums were released.

Other interest rate information:

	Group 2010		Group 2009	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Bank loans — secured	—	—	—	22,760

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29. OTHER LOANS

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unsecured other loans from:				
<i>Interest bearing</i>				
— controlling beneficial shareholder (Note 36(d) and Note (a))	300	4,629	300	4,629
— third parties (Note (b))	35,500	1,562	35,500	565
<i>Non-interest bearing</i>				
— controlling beneficial shareholder (Note (c))	617	—	150	—
— third parties (Note (d))	8,994	18,731	—	—
	45,411	24,922	35,950	5,194
Secured other loans from:				
<i>Interest bearing</i>				
— a third party (Note (e))	15,000	—	15,000	—
— New Prime (Note 30)	94,954	—	94,954	—
— a subsidiary of CWA (Note (f))	5,840	—	—	—
	115,794	—	109,954	—
	161,205	24,922	145,904	5,194

At 31 December 2010, total other loans were repayable as follows:

	Group		Company	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Within 1 year	161,205	23,794	145,904	4,066
After 1 year but within 2 years	—	1,128	—	1,128
	161,205	24,922	145,904	5,194

Notes to the Financial Statements

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29. OTHER LOANS *(continued)*

Notes:

- (a) Loans from the controlling beneficial shareholder, Mr. Zhang, are unsecured with interest charged at a fixed rate of either 2%, 5% or 9% (2009: 5% or 9%) per annum on the respective loans. The loans are within one year except for a loan of approximately HK\$563,000 repayable on 13 September 2011 which was classified as non-current in 2009, and was fully repaid during the year.
- (b) Pursuant to promissory notes entered into by the Group with three independent third parties in July, August and October 2010, the Group promised to pay to these independent third parties a sum of HK\$35,500,000 at a fixed rate of 2% per annum. These promissory notes are unsecured and repayable within one year. Last year, other loans from third parties were charged at a fixed interest rate of either 5% or 9% per annum on the respective loans. Included in these loans were loans of approximately HK\$565,000 contractually due in November 2011 which were fully repaid during 2010.
- (c) These non-interest bearing loans from the controlling beneficial shareholder are unsecured and repayable within one year.
- (d) The non-interest bearing loans from third parties are unsecured and matured on 31 December 2010. On 1 January 2011, the maturity date of these loans were extended to 1 May 2011 and with interest charged at a fixed rate of 1% per month. Last year, non-interest bearing other loans from third parties were repayable within one year.
- (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, which is wholly and beneficially owned by 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 bears interest at 12% per annum, and is repayable on or before 2 February 2011. In March 2011, the maturity date of this loan was extended to 30 Jun 2011.
- (f) Loan from a subsidiary of CWA bears interest at approximately 5.35% per annum and is repayable on 6 Jan 2011. It is secured by the Group's buildings, investment property and prepaid land premiums with an aggregate carrying amount of HK\$61,932,000.

30. LOAN WITH A SUBSCRIPTION RIGHT DERIVATIVE

On 1 December 2010, (i) the Company as the borrower and New Prime as the lender entered into the Loan Agreement and pursuant to which New Prime agreed to make available to the Company the Loan up to a principal amount of HK\$100,000,000 in cash; (ii) the Company as the borrower and New Prime as the lender entered into a debenture as a security for the repayment of the Loan; and (iii) the Company as the issuer and New Prime as the subscriber entered into the Subscription Agreement setting out the terms and conditions of the subscription of new shares of the Company (the "Subscription") by New Prime, pursuant to which the Company has agreed to issue and New Prime has agreed to subscribe for 1,000,000,000 new shares of the Company (the "Subscription Shares"), at a subscription price of HK\$0.10 per Subscription Share upon and subject to the terms and conditions set out in the Subscription Agreement.

Subject to the fulfillment (or waiver by New Prime) of conditions precedent of the Subscription Agreement on or before 31 March 2011 (which may be extended by New Prime at its own discretion to a date not later than 31 December 2011 or such later date as may be agreed between New Prime and the Company), the subscription price is to be satisfied by way of offsetting against the sums owed by the Company to New Prime under the Loan Agreement. Completion of the Subscription Agreement is not conditional on completion of the Open Offer. Completion of the Subscription will take place as soon as possible after the fulfillment of the conditions precedent under the Subscription Agreement.

Notes to the Financial Statements

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30. LOAN WITH A SUBSCRIPTION RIGHT DERIVATIVE *(continued)*

Completion of the Subscription is conditional upon, inter alia:

- (a) the Stock Exchange having granted or stated that it will grant (either unconditionally or subject only to conditions to which the Company and New Prime do not reasonably object) approval for (i) the resumption of trading of the Company's shares (the "Resumption of Trading"); and (ii) the listing of and permission to deal in the Subscription Shares;
- (b) the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (the "Executive") granting a waiver by the Executive pursuant to Note 1 of the notes on dispensation from Rule 26 of the Hong Kong Code on Takeovers and Mergers from the obligation of New Prime (together with its concert parties), to make a general offer for all of the Company's shares not already owned or agreed to be acquired by them as a result of subscribing for the Subscription Shares) (the "Whitewash Waiver"); and
- (c) the passing by the Company's shareholder(s) other than Mr. Zhang and his associates and the Company's shareholders who are involved in or interested in (other than solely as a Company shareholder) the Subscription Agreement, the Open Offer and the Whitewash Waiver or the respective transactions contemplated therein (the "Independent Shareholders") by way of a poll at the extraordinary general meeting ("EGM") of a resolution approving the issue of the Subscription Shares, the Whitewash Waiver and the increase in authorised share capital of the Company in accordance with the Listing Rules.

Completion of the Subscription Agreement is not conditional on completion of the Open Offer. In other words, upon fulfillment of the conditions precedent of the Subscription Agreement including, inter alia, approval for the Resumption of Trading, the New Prime is obliged to complete the Subscription. The Subscription, the Whitewash Waiver and the Open Offer will be put to Independent Shareholders' approval by poll at the same EGM.

The Loan recognised in the statements of financial position is calculated as follows:

	Group and Company HK\$'000
Proceeds of the Loan	100,000
Subscription right derivative	(6,081)
Liability component on initial recognition	93,919
Interest expense (Note 7)	1,035
Liability component at 31 December 2010 (Note 29)	94,954

Notes to the Financial Statements

31 December 2010

30. LOAN WITH A SUBSCRIPTION RIGHT DERIVATIVE *(continued)*

The Binominal Option Pricing Model is employed in deriving the fair value of the subscription right to the Subscription Shares ("subscription right derivative"). The model involves the construction of a binominal lattice which represents different possible paths that might be followed by the underlying asset prices over the exercisable period of the subscription right derivative. Valuation of the subscription right derivative is determined based on the following assumptions:

- (a) the Subscription to be completed on the expected completion date of 30 June 2011;
- (b) the underlying share price of the Company is HK\$0.10;
- (c) there are no dividend paid out during the period before the Subscription;
- (d) the risk free rate is the Hong Kong Exchange Fund Note rate; and
- (e) the volatility of the Company represents the daily volatility from Bloomberg, with reference to several comparable companies devoted to electronic components and products.

Interest expense on the Loan is calculated using the effective interest method by applying an effective interest rate of 12.81% to the liability component.

The movements in subscription right derivative recognised in the statements of financial position are as follows:

	Group and Company HK\$'000
Fair value on initial recognition	6,081
Change of fair value (Note 6)	(1,390)
Fair value at 31 December 2010	4,691

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 is 2 June 2011.

Pursuant to a debenture dated 1 December 2010, all assets of the Company and the Group amounting to approximately HK\$69,929,000 and HK\$233,526,000, respectively, are pledged to New Prime by way of a fixed and floating charge for the Loan.

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31. DEFERRED TAX

The movements in deferred tax liabilities during the current and prior years are as follows:

Group

	Buildings revaluation reserve HK\$'000
At 1 January 2009	2,336
Credited to profit or loss (Note 11)	(388)
Charged to other comprehensive income (Note 14)	2,155
Exchange realignments	8
At 31 December 2009 and 1 January 2010	4,111
Credited to profit or loss (Note 11)	(511)
Charged to other comprehensive income (Note 14)	2,494
Exchange realignments	99
At 31 December 2010	6,193

The Group has accumulated tax losses arising in Hong Kong and the PRC of approximately HK\$62,203,000 (2009: HK\$106,526,000) and HK\$76,285,000 (2009: HK\$106,609,000) respectively. Deferred tax assets have not been recognised in respect of these losses as either they have arisen in subsidiaries that have been loss-making for some time, or it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Tax losses in Hong Kong can be carried forward indefinitely while tax losses in the PRC will expire as follows:

	2010 HK\$'000	2009 HK\$'000
Years:		
2010	—	48,366
2011	—	—
2012	—	—
2013	23,940	23,325
2014	35,839	34,918
2015	16,506	—
	76,285	106,609

In addition, the Group had unrecognised deductible temporary differences of HK\$153,019,000 (2009: HK\$140,634,000) as at 31 December 2010 as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

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32. SHARE CAPITAL

Authorised and issued share capital

	2010 HK\$'000	2009 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 37 to the financial statements.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

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 therefor.

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 the PRC. These reserves can be used either to offset against accumulated losses or be capitalised as paid-up capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of paid-up capital after the above mentioned usages.

Buildings revaluation reserve represents the surplus on revaluation of the Group's buildings, which is wholly non-distributable.

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33. RESERVES (continued)**(b) Company**

	Share premium account HK\$'000	Pre-IPO share option reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2009	52,557	5,494	98,938	(254,763)	(97,774)
Share options lapsed during the year	—	(333)	—	333	—
Total comprehensive income for the year	—	—	—	48,851	48,851
At 31 December 2009 and 1 January 2010	52,557	5,161	98,938	(205,579)	(48,923)
Share options lapsed during the year	—	(273)	—	273	—
Total comprehensive income for the year	—	—	—	(76,801)	(76,801)
At 31 December 2010	52,557	4,888	98,938	(282,107)	(125,724)

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation completed in 2004, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2010 Revision) of the Cayman Islands, the Company's share premium account and contributed surplus may be distributed to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be paid, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The pre-IPO share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses or retained profits should the related options expire or be forfeited.

34. DISPOSALS OF SUBSIDIARIES

On 13 February 2009, the Company disposed of all its equity interest in two subsidiaries, Crown Joint Investment Limited and Kaern GmbH. The proceed on disposal of HK\$1 was received in cash.

On 16 December 2009, a non-wholly owned subsidiary, Mitsumaru (Japan) Limited ("MJP"), allotted new shares to a third party and one the then shareholder and a director of MJP pursuant to investment agreements dated 18 September 2009 and 5 November 2009 respectively. After the allotment, the Group's equity interests decreased from 67.5% to 41.5% and the Group no longer had control over MJP which is principally engaged in trading of electronic components. Accordingly, MJP was reclassified as an associate of the Group, and were equity accounted for thereafter. A gain on deemed disposals of HK\$5,215,000 for the year ended 31 December 2009 was resulted from this share allotment.

Notes to the Financial Statements

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34. DISPOSALS OF SUBSIDIARIES (continued)

The net liabilities disposed of in these transactions were as follows:

	HK\$'000
Property, plant and equipment	162
Trade receivables	3,705
Inventories	12,605
Prepayments and other receivables	2,686
Cash and bank balances	2,728
Accounts payable	(22,699)
Accruals and other payables	(3,719)
Net identifiable liabilities	(4,532)
Reclassification of exchange fluctuation reserve on disposal of subsidiaries	798
Net gain on disposals	3,734
Total consideration	—
Net cash outflow arising on disposals:	
Cash consideration	—
Cash and bank balance disposed of	(2,728)
	(2,728)

35. OPERATING LEASE ARRANGEMENTS

During the year ended 31 December 2010, the Group leased its office properties under operating lease arrangements which were negotiated for terms of one to three years. At 31 December 2010, the Group's minimum lease obligation under non-cancellable operating leases in respect of land and buildings are as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Within one year	3,915	3,020
In the second to fifth years, inclusive	955	2,667
	4,870	5,687

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36. RELATED PARTY TRANSACTIONS

Saved as disclosed in elsewhere of the consolidated financial statements, the Group entered into the following transactions with related parties during the year:

(a)	Related party relationship	Types of transactions	Transaction amount		Balance owed/(owing)	
			2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
	Major shareholder	Sales	2,301	1,137	3,580	3,374
	— 數源科技股份有限公司 (Note)	Purchases	—	1,843	—	—

(b) Included in prepayments, deposits and other receivables of the Group are amounts due from certain shareholders totaling HK\$361,000 (2009: HK\$134,000). The balances are unsecured, interest-free and have no specific terms of repayment.

(c) Included in other payables, accrued expenses and deposits of the Group at 31 December 2010 are interest payable to the controlling beneficial shareholder, Mr. Zhang, totaling HK\$741,000 (2009: HK\$326,000) in respect of other loans from him as disclosed in Note 29.

(d) The interest expenses on other loans from the controlling beneficial shareholder of HK\$415,000 (2009: HK\$326,000) were charged at a rate of either 2%, 5% or 9% (2009: 5% or 9%) per annum on the respective loans.

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 receivables nor has any guarantee been given or received during the current or prior year regarding related party transactions.

Note: 數源科技股份有限公司 owns 9.52% (2009: 9.52%) equity interest in the Company and is a major shareholder of the Company.

37. 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 to, upon their exercise, 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.

Notes to the Financial Statements

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37. SHARE OPTION SCHEMES *(continued)*

The Scheme *(continued)*

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.

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 year, at 31 December 2010 and up to the date of approval of these 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.

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37. SHARE OPTION SCHEMES (continued)

The Pre-IPO Scheme (continued)

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

	2010		2009	
	Weighted average exercise price HK\$	Number of options '000	Weighted average exercise price HK\$	Number of options '000
At 1 January	1.068	22,700	1.068	24,410
Lapsed during the year	1.068	(1,400)	1.068	(1,710)
At 31 December	1.068	21,300	1.068	22,700

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

2010:

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

2009:

Number of options '000	Exercise price * HK\$ per share	Exercise period
22,700	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.

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37. SHARE OPTION SCHEMES (continued)

The Pre-IPO Scheme (continued)

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 the binomial model taking into account the terms and conditions upon which the options were granted. No share option expense is recognised during the year ended 31 December 2010 (2009: 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.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Financial assets	Group					
	Loans and receivables		Available-for-sale financial assets		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Available-for-sale investments	—	—	226	340	226	340
Trade and notes receivables	16,329	15,665	—	—	16,329	15,665
Financial assets included in prepayments, deposits and other receivables	6,377	5,955	—	—	6,377	5,955
Pledged deposits	—	881	—	—	—	881
Restricted deposits	—	227	—	—	—	227
Cash and cash equivalents	86,250	4,943	—	—	86,250	4,943
	108,956	27,671	226	340	109,182	28,011

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38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	Group					
	Financial liabilities at amortised cost		Financial liabilities designated as at fair value through profit or loss upon initial recognition		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Trade and bills payables	152,876	161,051	—	—	152,876	161,051
Other payables, accrued expenses and deposits received	27,082	20,958	—	—	27,082	20,958
Interest-bearing bank loans	—	22,760	—	—	—	22,760
Other loans	161,205	24,922	—	—	161,205	24,922
Subscription right derivative	—	—	4,691	—	4,691	—
	341,163	229,691	4,691	—	345,854	229,691

Financial assets	Company	
	Loans and receivables	
	2010 HK\$'000	2009 HK\$'000
Deposits and other receivables	181	109
Amount due from a subsidiary	6,031	—
Cash and cash equivalents	63,717	900
	69,929	1,009

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38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	Company					
	Financial liabilities at amortised cost		Financial liabilities designated as at fair value through profit or loss upon initial recognition		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other payables, accrued expenses and deposits received	5,058	4,738	—	—	5,058	4,738
Other loans	145,904	5,194	—	—	145,904	5,194
Subscription right derivative	—	—	4,691	—	4,691	—
	150,962	9,932	4,691	—	155,653	9,932

The Directors consider that the carrying amounts of the Group's and the Company's loans and receivables and financial liabilities at amortised cost approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at 31 December 2010 and 2009.

The fair value of subscription right derivative of the Group and of the Company is measured using a Binomial Option Pricing Model that includes some assumptions that are not supportable by observable market prices or rates (see Note 30 for details), which is within Level 3 fair value measurements that are derived from valuation techniques that include inputs for the liability that are not based on observable market data (unobservable inputs). During the year, a gain on fair value change of the subscription right derivative of HK\$1,390,000 is recognised in profit or loss.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of Directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on risk management. As the Group's exposure to the market risk is kept at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

At 31 December 2010, the Group's financial instruments mainly comprise cash and cash equivalents, trade and notes receivables, other receivables, trade and bills payables, other payables, bank loans, other loans and subscription right derivative.

(a) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Interest rate risk *(continued)*

The Company's cash flow interest rate risk relates primarily to its variable-rate bank deposits and borrowings at floating interest rate. At 31 December 2010, the Group does not expose to significant cash flow interest rate risk as the Group has only a one month short-term borrowings of HK\$5.8 million which bears floating interest rate with a maturity date on 6 January 2011. At 31 December 2009, the Group's interest-rate risk was arisen from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Company currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax and the Group's and the Company's total deficits.

	Group			Company	
	Change in basis points	Change in loss before tax HK\$'000	Change in total deficits HK\$'000	Change in basis points	Change in total deficits HK\$'000
2010 Hong Kong dollar	100	(804)	(804)	100	(637)
2009 Hong Kong dollar	100	289	289	100	61

(b) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in RMB, HK\$ and United States Dollar ("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 be confined to RMB against US\$. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations, but 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.

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the RMB against US\$ exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's total deficits.

	Change in rate %	Change in loss before tax HK\$'000	Change in total deficits HK\$'000
2010 If RMB appreciate against US\$	4	(22)	(22)
2009 If RMB appreciate against US\$	4	107	107

Notes to the Financial Statements

31 December 2010

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant.

At the end of the reporting period, the Group has a certain concentration of credit risk as 70% (2009: 73%) of the total accounts receivable was due from the Group's five largest customers. Details of the credit quality of the accounts receivable that are neither past due nor impaired were set out in Note 23.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents arises from default of the counterparties with a maximum exposure equal to the carrying amount of these instruments. Cash and cash equivalents are deposits in banks with sound credit ratings. Given their high credit ratings, the Group does not expect to have any associated credit risk.

(d) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

The maturity profile of the Group's financial liabilities as at the end of reporting period, based on the contracted undiscounted payments, was as follows:

2010	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade and bills payables	119,191	31,458	2,227	—	152,876
Other payables, accrued expenses and deposits received	26,785	—	297	—	27,082
Other loans	8,994	21,159	137,975	—	168,128
	154,970	52,617	140,499	—	348,086
2009	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade and bills payables	92,136	48,444	20,471	—	161,051
Other payables, accrued expenses and deposits received	20,678	—	280	—	20,958
Other loans	18,731	—	5,531	1,187	25,449
Interest-bearing bank loans	—	24,134	—	—	24,134
	131,545	72,578	26,282	1,187	231,592

Notes to the Financial Statements

31 December 2010

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***(d) Liquidity risk** *(continued)*

The maturity profile of the Company's financial liabilities as at the end of reporting period, based on the contracted undiscounted payments, was as follows:

2010	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Other loans	—	15,313	137,508	—	152,821
Other payables and accrued expenses	4,761	—	297	—	5,058
	4,761	15,313	137,805	—	157,879

2009	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Other loans	4,412	—	—	1,184	5,596
Other payables and accrued expenses	4,460	—	278	—	4,738
	8,872	—	278	1,184	10,334

(e) Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain sufficient capital to support its business and maximise shareholder value through the optimization of the debt and equity balance.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or obtain borrowings from banks or other third parties. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

Notes to the Financial Statements

31 December 2010

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital risk management (continued)

The Group monitors capital using a gearing ratio, which is net debts divided by the capital plus net debts. The gearing ratios as at the end of reporting periods were as follows:

	Group	
	2010 HK\$'000	2009 HK\$'000
Interest-bearing bank loans	—	22,760
Other loans	161,205	24,922
Trade and bills payables	152,876	161,051
Other payables, accrued expenses and deposits received	27,082	20,958
Subscription right derivative	4,691	—
Less: Cash and cash equivalents	(86,250)	(4,943)
Net debts	259,604	224,748
Equity attributable to owners of the Company	(120,243)	(71,505)
Capital and net debts	139,361	153,243
Gearing ratio	186%	147%

40. COMPARATIVE FIGURES

In the consolidated statement of comprehensive income, depreciation and rental expenses of approximately HK\$4,501,000 included under administrative expenses in 2009 consolidated financial statements have been reclassified to cost of sales in order to achieve a consistent presentation with the current year.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2011.

Five Year Financial Summary

The following is a summary of the published consolidated results and consolidated assets, liabilities and non-controlling interests of the Group for the last five financial years.

	Year ended 31 December				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
TURNOVER	124,098	167,518	519,883	1,065,938	1,173,795
(LOSS)/PROFIT BEFORE INCOME TAX	(50,889)	(88,681)	(110,135)	(101,904)	11,177
Income tax credit/(expense)	511	474	(3,130)	(13,460)	(2,750)
(LOSS)/PROFIT FOR THE YEAR	(50,378)	(88,207)	(113,265)	(115,364)	8,427
(Loss)/profit attributable to:					
Owners of the Company	(49,749)	(88,564)	(112,483)	(115,094)	8,639
Non-controlling interests	(629)	357	(782)	(270)	(212)
	(50,378)	(88,207)	(113,265)	(115,364)	8,427

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
TOTAL ASSETS	233,526	164,598	390,545	741,918	944,132
TOTAL LIABILITIES	(352,995)	(234,726)	(385,396)	(640,416)	(731,739)
NON-CONTROLLING INTERESTS	(774)	(1,377)	(1,016)	(1,719)	(1,296)
NET (LIABILITIES)/ASSETS	(120,243)	(71,505)	4,133	99,783	211,097