



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)

2013 Interim Report



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Corporate Information

DIRECTORS

Executive Directors:

Mr. Tang Chin Wan

Mr. Siu Chi Ming

Independent Non-executive Directors:

Mr. Martin He

Mr. Mu Xiangming (resigned on 7 June 2013)

Ms. Au Shui Ming

AUDIT COMMITTEE

Ms. Au Shui Ming (*Chairman*)

Mr. Martin He

NOMINATION COMMITTEE

Ms. Au Shui Ming

Mr. Martin He

REMUNERATION COMMITTEE

Mr. Martin He (*Chairman*)

Ms. Au Shui Ming

Mr. Siu Chi Ming

REGISTERED OFFICE

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Cayman Islands

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18 Harbour Road

Wanchai

Hong Kong

COMPANY SECRETARY

Mr. Jan Wing Fu, Barry

AUTHORISED REPRESENTATIVES

(for the purposes of the Listing Rules)

Mr. Siu Chi Ming

Mr. Jan Wing Fu, Barry

AUTHORISED REPRESENTATIVES

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

Mr. Siu Chi Ming

Mr. Jan Wing Fu, Barry

AUDITOR

BDO Limited

Certified Public Accountants

25th Floor

Wing On Centre

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited

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Grand Cayman KY1-1110

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PRINCIPAL BANKERS

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STOCK CODE

The Stock Exchange of Hong Kong Limited: 2358

WEBSITE

<http://www.irasia.com/listco/hk/2358>

The board of directors (the "Directors") (the "Board") of Mitsumaru East Kit (Holdings) Limited (the "Company") are pleased to present unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 (the "Period") together with the comparative figures for the corresponding period of 2012.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	Notes	Unaudited Six months ended 30 June	
		2013 HK\$'000	2012 HK\$'000
Turnover	4	16,126	79,364
Cost of sales		(10,513)	(76,860)
Gross profit		5,613	2,504
Other income and gains	4	210	1,495
Selling and distribution costs		(1,056)	(1,521)
Administrative expenses		(5,457)	(11,380)
Other operating expenses		–	(60)
Finance costs	5	(2,128)	(4,146)
Loss before income tax	6	(2,818)	(13,108)
Income tax expenses	7	(852)	(285)
Loss for the period		(3,670)	(13,393)
Other comprehensive loss for the period			
Loss on revaluation of buildings		–	(23)
Exchange differences on translating foreign operations		–	(20)
Other comprehensive loss for the period		–	(43)
Loss and total comprehensive loss for the period		(3,670)	(13,436)
Profit/(loss) attributable to:			
– Owners of the Company		(4,414)	(13,171)
– Non-controlling interests		744	(222)
		(3,670)	(13,393)
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		(4,414)	(13,214)
– Non-controlling interests		744	(222)
		(3,670)	(13,436)
Loss per share	8		
– Basic and diluted		(HK0.9 cents)	(HK3.3 cents)

Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
NON-CURRENT ASSETS			
Plant and equipment	10	752	750
Goodwill		4,617	4,617
Total non-current assets		5,369	5,367
CURRENT ASSETS			
Inventories		6,079	2,615
Trade and notes receivables	11	17,745	7,111
Prepayments, deposits and other receivables		2,078	2,361
Cash and cash equivalents		302	2,171
Total current assets		26,204	14,258
CURRENT LIABILITIES			
Trade and bills payables	12	5,628	1,305
Other payables, accrued expenses and deposits received		18,489	13,040
Amount due to non-controlling interests		257	543
Other loans	13	144,472	138,930
Derivative financial instrument		5,131	5,006
Tax payable		1,718	1,253
Total current liabilities		175,695	160,077
Net current liabilities		(149,491)	(145,819)
Total assets less current liabilities		(144,122)	(140,452)
Net liabilities		(144,122)	(140,452)
Equity attributable to owners of the Company			
Issued capital	14	40,000	40,000
Reserves	16	(185,698)	(181,284)
Non-controlling interests		1,576	832
Total deficits		(144,122)	(140,452)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Unaudited											
	Attributable to owners of the Company											
	Issued capital	Share premium account	Pre-IPO share option reserve	Con-tributed surplus	Statutory surplus reserve	Expansion reserve	Buildings revaluation reserve	Exchange fluctuation reserve	Accu-mulated losses	Total	Non-controlling interests	Total deficits
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
For the six months ended 30 June 2013 (unaudited)												
At 1 January 2013	40,000	52,557*	-	4,990*	-	-	-	(84)*	(238,747)*	(141,284)	832	(140,452)
Loss for the period	-	-	-	-	-	-	-	-	(4,414)	(4,414)	744	(3,670)
At 30 June 2013	40,000	52,557*	-	4,990*	-	-	-	(84)*	(243,161)*	(145,698)	1,576	(144,122)
For the six months ended 30 June 2012 (unaudited)												
At 1 January 2012	40,000	52,557	4,625	4,990	28,419	701	16,353	15,394	(310,995)	(147,956)	747	(147,209)
Loss for the period	-	-	-	-	-	-	-	-	(13,171)	(13,171)	(222)	(13,393)
Other comprehensive income	-	-	-	-	-	-	(23)	(20)	-	(43)	-	(43)
Total comprehensive income for the period	-	-	-	-	-	-	(23)	(20)	(13,171)	(13,214)	(222)	(13,436)
Share options lapsed during the period	-	-	(257)	-	-	-	-	-	257	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	583	583
At 30 June 2012	40,000	52,557	4,368	4,990	28,419	701	16,330	15,374	(323,909)	(161,170)	1,108	(160,062)

* These reserve accounts comprise the consolidated deficit in reserves at HK\$185,698,000 (31 December 2012: HK\$181,284,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

Unaudited Six months ended 30 June

	2013 HK\$'000	2012 HK\$'000
Net cash (outflow)/inflow from operating activities	(7,433)	2,050
Net cash outflow from investing activities	(103)	(6,800)
Net cash inflow/(outflow) from financing activities	5,667	(4,110)
Net decrease in cash and cash equivalents	(1,869)	(8,860)
Cash and cash equivalents at beginning of the period	2,171	12,662
Cash and cash equivalents at end of the period	302	3,802

Notes to the Condensed Consolidated Financial Statements

30 June 2013

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2013 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the Interim Financial Statements are consistent with those set out in the consolidated financial statements of the Group for the year ended 31 December 2012, the New HKFRSs which have become effective in this Period have no material impact on the accounting policies in the Group's condensed consolidated interim financial statements for the Period.

The Group has not applied the new HKFRSs that have been issued but are not effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

Notes to the Condensed Consolidated Financial Statements

30 June 2013

3. SEGMENT INFORMATION

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

Reportable segments

The Group has one reportable segment during the Period (30 June 2012: three segments). The following summary describes the operations in the Group's reportable segment:

- Water meter – the sale, design, assembly and installation of water meters and provision of after sales and related services of water meters.

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

Six months ended 30 June 2013	Water meter (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Reporting segment revenue from external customers	16,126	16,126
Reporting segment gain	3,559	3,559
Reporting segment assets	25,485	25,485

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

* The design & assembly and trading segments was discontinued as at 31 December 2012. Details of the discontinued operations were set out in the consolidated financial statements of the Group for the year ended 31 December 2012.

Notes to the Condensed Consolidated Financial Statements

30 June 2013

3. SEGMENT INFORMATION (CONTINUED)

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

	Unaudited Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Profit or (loss)		
Total reporting segment profit/(loss)	3,559	(5,424)
Unallocated corporate expenses	(4,249)	(4,830)
Unallocated finance costs	(2,128)	(2,854)
Consolidated loss before income tax	(2,818)	(13,108)

4. TURNOVER, OTHER INCOME AND GAINS

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

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

	Unaudited Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Bank interest income	–	3
Rental income from investment property	–	1,124
Fair value change of a derivative financial instrument	(125)	(122)
Management fee	320	420
Others	15	70
	210	1,495

5. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Interest on loans wholly repayable within five years		
– Bank loan	–	158
– Entrusted loan	–	897
– Other loans	2,128	3,091
	2,128	4,146

Notes to the Condensed Consolidated Financial Statements

30 June 2013

6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	Unaudited Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Cost of inventories recognised as expense	13,977	72,594
Depreciation of plant and equipment	101	2,754
Depreciation of investment property	–	308
Amortisation of prepaid land premiums	–	78
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	1,775	5,184
Pension scheme contributions	24	842
	15,877	6,026
Fair value change of a subscription right derivative	125	121
Foreign exchange loss, net	–	60

7. INCOME TAX EXPENSES

No provision of Hong Kong Profit Tax has been provided in the Interim Financial Statements as the Group incurred losses for the Period in Hong Kong.

The rate of corporate income tax of the People's Republic of China ("PRC") is calculated at a standard rate of 25% (30 June 2012: 25%) on the estimated assessable profits arising from its operation in the PRC.

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

	Unaudited Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Current tax for the Period – PRC	852	–
Deferred tax expense	–	285
	852	285

8. LOSS PER SHARE

The calculation of basic loss per share for the Period is based on the loss for the Period attributable to owners of the Company of HK\$4,414,000 (30 June 2012: HK\$13,171,000) and 400,000,000 (30 June 2012: 400,000,000) ordinary shares in issue during the Period.

The diluted loss per share for both the six months ended 30 June 2013 and 2012 is the same as the respective basic loss per share as the outstanding options during both periods have an anti-dilutive effect on the basic loss per share for these periods.

Notes to the Condensed Consolidated Financial Statements

30 June 2013

9. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2013 (30 June 2012: HK\$Nil).

10. PLANT AND EQUIPMENT

During the Period, approximately HK\$103,000 (30 June 2012: approximately HK\$2,107,000) was spent on acquisition of plant and equipment. There was no disposal of property, plant and equipment during the Period (30 June 2012: Nil).

11. TRADE AND NOTES RECEIVABLES

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Trade and notes receivables	17,745	7,111
Impairment	–	–
	17,745	7,111

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 60 to 90 days (2012: 30 to 120 days), extending up to six months for major customers. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Within 90 days	16,304	5,418
91 days to 180 days	134	957
181 days to 1 year	1,287	487
Over 1 year	20	249
	17,745	7,111

Notes to the Condensed Consolidated Financial Statements

30 June 2013

12. TRADE AND BILLS PAYABLES

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

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Within 180 days	5,490	1,067
181 days to 1 year	21	72
1 to 2 years	117	166
	5,628	1,305

13. OTHER LOANS

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 HK\$'000
Unsecured other loans from:		
<i>Interest bearing</i>		
– non-controlling beneficial shareholder of a subsidiary (note (a))	736	736
– a third party (note (b))	10,000	10,000
– a third party (note (c))	6,250	4,000
– a third party (note (d))	6,500	5,000
<i>Non-interest bearing</i>		
– controlling beneficial shareholder (note (e))	7	7
	23,493	19,743
Secured other loans from:		
<i>Interest bearing</i>		
– Kingston (note (f))	15,000	15,000
– New Prime (note (g))	105,979	104,187
	120,979	119,187
	144,472	138,930

Notes to the Condensed Consolidated Financial Statements

30 June 2013

13. OTHER LOANS(CONTINUED)

All other loans are repayable within one year.

Notes:

- (a) The loan from the non-controlling beneficial shareholder of a subsidiary of the Company is unsecured, bore interest at a fixed rate of 5.76% per annum and is repayable on 16 June 2012. On 16 June 2012, the maturity date of the loan was extended to 31 December 2013.
- (b) Pursuant to a promissory note issued by the Group to an independent third party in September, 2012, the Group obtained a loan with principal amount of HK\$10,000,000. This promissory note was unsecured, bore interest at a fixed rate of 2% per annum and is repayable on 31 December 2012. On 31 December 2012, the maturity date of the loan was extended to 31 December 2013.
- (c) Pursuant to a promissory note issued by the Group to an independent third party in August, 2010, the Group obtained a loan with principal amount of HK\$20,000,000. This promissory note was unsecured, bore interest at a fixed rate of 2% per annum and is repayable within one year. During the years of 2011 and 2012, the Group repaid the principal amounts of HK\$7,000,000 and HK\$9,000,000 respectively. On 31 December 2012, the Group agreed with the independent third party to extend the maturity date of the remaining balance of the loan to 31 December 2013. On 1 April 2013, the interest rate of the loan was revised from 2% to 8% per annum for the remaining period of the loan.

Pursuant to promissory notes issued by the Group to the same independent third party in March and June 2013, the Group obtained certain loans with principal amounts of HK\$4,250,000. These promissory notes were unsecured, bore interest at a fixed rate of 8% per annum and are repayable in September 2013. During the Period, the Group repaid the principal amounts of HK\$2,000,000.

- (d) Pursuant to promissory notes issued by the Group to an independent third party in October and December, 2012, the Group obtained certain loans with principal amounts of HK\$5,000,000. These promissory notes were unsecured, bore interest at a fixed rate of 10% per annum and are repayable in October and December 2013. During the Period, the Group repaid the principal amounts of HK\$2,000,000.

Pursuant to promissory notes issued by the Group to the same independent third party in May and June 2013, the Group obtained certain loans with principal amounts of HK\$3,500,000. These promissory notes were unsecured, bore interest at a fixed rate of 10% per annum and are repayable in November and December 2013.

- (e) The loan from the controlling beneficial shareholder is unsecured and is repayable within one year.
- (f) On 30 July 2010, the Company entered into a loan agreement with an independent third party, Kingston Finance Limited ("Kingston"). Pursuant to the agreement, Kingston agreed to provide a loan of HK\$15,000,000 to the Company, which is secured by a charge over 224,000,000 shares of the Company (the "Charged Shares") beneficially owned by Z-Idea Company Limited ("Z-Idea"), which is wholly and beneficially owned by Mr. Zhang Shuyang ("Mr. Zhang"), and a personal guarantee given by Mr. Zhang. The Company also undertakes and procures Z-Idea to ensure that the Charged Shares shall not at any time be less than 56% of the total issued share capital of the Company, and Z-Idea to refrain from exercising any voting rights or such other action to approve or agree to any new issue of shares of the Company or such other activity which would have the effect of diluting the Charged Shares without the prior consent of Kingston, failing which the loan will immediately become due and payable. The loan was initially interest bearing at a fixed rate of 12% per annum. On 30 June 2011, the loan was renewed and the interest rate was revised from 12% to 8% per annum. On 19 October 2012, the maturity date of the loan was extended to 31 December 2013.
- (g) On 1 December 2010, the Company and New Prime Holdings Limited ("New Prime"), a wholly owned subsidiary of China Water Affairs Group Limited entered into a loan agreement and pursuant to which New Prime agreed to make available to the Company a loan (the "Loan") up to a principal amount of HK\$100,000,000 in cash, in order to finance the operations of the Group. Pursuant to a subscription agreement entered into between the Company and New Prime, the Loan will be applied to settle consideration to be paid by New Prime for subscription of 1,000,000,000 new shares of the Company, upon fulfillment of certain conditions including the resumption of trading of the Company's shares as detailed in the consolidated financial statements for the year ended 31 December 2010.

Pursuant to the Loan agreement, New Prime has an overriding right of repayment on demand of the Loan after six months from the date of draw down, which was 2 June 2011. With the five supplemental letters dated on 30 June 2011, 6 December 2011, 19 June 2012, 27 December 2012 and 28 June 2013, New Prime agreed to extend the long stop date to 31 December 2013 or such later date as may be agreed between New Prime and the Company.

Pursuant to a debenture dated 1 December 2010, all assets of the Company and the Group are pledged to New Prime by way of a fixed and floating charge for the Loan. Interest expense on the Loan is calculated using the effective interest method by applying the effective interest rate of 1.93% (31 December 2012: 1.93%) to the liability component of the Loan.

Notes to the Condensed Consolidated Financial Statements

30 June 2013

14. SHARE CAPITAL

	Unaudited As at 30 June 2013 HK\$'000	Audited As at 31 December 2012 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 15 to the Interim Financial Statements.

15. SHARE OPTION SCHEMES

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

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

The Scheme

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

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

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

Notes to the Condensed Consolidated Financial Statements

30 June 2013

15. SHARE OPTION SCHEMES (CONTINUED)

The Scheme (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the Period, at 30 June 2012 and up to the date of approval of these Interim Financial Statements, no share options have been granted under the Scheme.

The Pre-IPO Scheme

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

- (i) The subscription price per share shall be the price of each share issued under the public offering, that is, HK\$1.068 per share;
- (ii) The maximum number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme shall be 35,000,000 shares; and
- (iii) Save for the options which have been granted but have not lapsed, cancelled or exercised in full under the Pre-IPO Scheme as set out below, no further options will be offered or granted under the Pre-IPO Scheme after the day immediately prior to the listing of the Company's shares on the Stock Exchange.

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

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

	Unaudited Six months ended 30 June			
	2013		2012	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	–	–	1.068	18,760
Lapsed during the Period	–	–	1.068	(890)
At 30 June	–	–	1.068	17,870

Notes to the Condensed Consolidated Financial Statements

30 June 2013

15. 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 binomial model taking into account the terms and conditions upon which the options were granted. No share option expense is recognized during the period ended 30 June 2012 (2011: HK\$Nil). The following table lists the inputs to the model used for calculating the fair value of the Pre-IPO share options at the date of grant as follows:

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

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

16. RESERVES

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

In accordance with the relevant regulation in the PRC, the subsidiaries operating in the PRC are required to transfer 10% of their profits after tax, as determined under the accounting regulations in the PRC, to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capital. The statutory surplus reserve and the expansion reserve are non-distributable, and are subject to certain restrictions set out in the relevant regulations in PRC. These reserves can be used either to offset against accumulated losses or be capitalized as paid-up capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of paid-up capital after the above mentioned usages.

Buildings revaluation reserve for the period ended 30 June 2012 represented the surplus on revaluation of the Group's buildings. The balance on this reserve is wholly non-distributable.

17. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group does not have any contingent liability or capital commitment in the Period under review (31 December 2012: HK\$Nil).

18. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the Interim Financial Statements, the Group had the following material transactions with related parties during the six months ended 30 June 2013:

- (a) Included in prepayments, deposits and other receivables are amounts due from certain shareholders totaling HK\$Nil (31 December 2012: approximately HK\$99,000). The balances due were unsecured, interest-free and have no specific terms of repayment;
- (b) During the Period, total compensation paid to the Directors of the Company was approximately HK\$592,000 (30 June 2012: approximately HK\$480,000).

The related party transactions in respect of items (a) above also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

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

19. APPROVAL OF INTERIM FINANCIAL STATEMENTS

This Interim Financial Statements were approved and authorised for issue by the Board of Directors on 30 August 2013.

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

During the Period, the Group achieved approximately HK\$16,126,000 in turnover, representing a significant decrease of approximately 80% from that of approximately HK\$79,364,000 during the same period of last year. Gross profit was approximately HK\$5,613,000, comparing to the gross profit of approximately HK\$2,504,000 during the corresponding period of last year. The overall gross profit ratio raised from approximately 3.2% to approximately 34.8%. Loss for the Period attributable to owners of the Company was approximately HK\$4,414,000 (for the corresponding period of last year: approximately HK\$13,171,000). Basic loss per share was approximately HK0.9 cents (for the corresponding period of last year: approximately HK3.3 cents). As at 30 June 2013, the balance of cash and cash equivalents was approximately HK\$302,000 (31 December 2012: HK\$2,171,000).

Turnover

For the Period under review, the Group recorded a turnover of approximately HK\$16,126,000 which is solely contributed by the water meter business acquired by the Group on 2012.

The substantial drop in turnover as comparing to the same period of last year is mainly because of the disposal of the loss making LCD TV production and trading business on 31 July 2012 which paved the way for the rationalizing of the Group's strategic business.

During the Period, the Group's business has one segment (30 June 2012: three segments). Details of the segment information are set out in note 3 of the Interim Financial Statements.

Gross Profit Margin

During the Period under review, the significant improvement of gross margin was mainly credited to the high margin products and services generated from the water meter business.

Financial Position and Liquidity

	30 June 2013	31 December 2012
Current ratio	0.15	0.09
Quick ratio	0.11	0.07
Gearing ratio*	536%	1,019%

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

As at 30 June 2013, the Group's borrowings from other loans were approximately HK\$144,472,000 (31 December 2012: approximately HK\$138,930,000).

The cash and cash equivalents was approximately HK\$302,000 (31 December 2012: approximately HK\$2,171,000). The current ratio and quick ratio were approximately 0.15 and 0.11 (31 December 2012: approximately 0.09 and 0.07) respectively. The gearing ratio decreased to approximately 536% on 30 June 2013 from approximately 1,019% on 31 December 2012.

The maturity profile of other loans is detailed in note 13 to the Interim Financial Statements.

Management Discussion and Analysis

Capital Structure and Foreign Exchange Risk

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

The Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB") and HK\$ (30 June 2012: 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\$. During the Period, 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.

Pledge of Assets

As at 30 June 2013, all assets of the Group with an aggregate carrying value of approximately HK\$31,573,000 (31 December 2012: approximately HK\$19,625,000) were pledged to secure borrowings of the Company and of the Group.

Employees Benefit and Expenses

As at 30 June 2013, the total number of employees in the Group was 46 (31 December 2012: 44). The total amount of employee wages and salaries incurred during the Period was approximately HK\$1,799,000 (30 June 2012: approximately HK\$6,026,000). 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. For the Period, all share option granted in prior years was lapsed.

INTERIM DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2013 (30 June 2012: HK\$Nil).

BUSINESS REVIEW

The first half of 2013 continued to be a tough and challenging period to the Group. In order to enhance the profit margin and cash position of the Group, the Group disposed of its loss making LCD TV production and trading business on 31 July 2012 which paved the way for the rationalizing of the Group's strategic business in the second half of 2012 and the first half of 2013.

Thanks to the adoption of these group restructuring and the acquisition of the new water meter business in 2012, the Group recorded HK\$16,126,000 in turnover in the first half of 2013. The gross margin also recorded a big jump from 3.2% to 34.8% for the Period under review, and this trend is expected to continue with the increasing contribution from the high margin products and services generated from the water meter business.

The net operating loss was significantly dropped from HK\$13,393,000 to HK\$3,670,000 in the Period which demonstrated a significant improvement in the reengineering of the daily business operation by the management, and the loss attributable to owners of the Company also reduced from HK\$13,171,000 to HK\$4,414,000 in the Period.

The management anticipates that this prospect trend will persist in the second half of 2013, and the performance and the operations of the Group will certainly become more satisfactory in the coming future.

Management Discussion and Analysis

OUTLOOK

During the suspension period of trading of shares of the Company, the Directors have been persistently searching for acquisition opportunity of similar television business with satisfactory financial performance for the purpose of achieving resumption.

On 20 August 2013, Ace Earn Limited, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with 數源科技股份有限公司 (SOYEA Technology Co., Ltd.) (“SOYEA”) for the acquisition of the 100% equity interests of 數源久融技術有限公司 (Soyea Jiu Rong Technology Co., Ltd.) (“Jiu Rong”) (the “Proposed Acquisition”). Jiu Rong is principally engaged in the R&D, manufacturing and sales of digital TV, high definition (HD) liquid crystal display (LCD) TV and set-top box (STB) as well as the provision of application solutions regarding integration of tele-communication, television and internet in the digital AV industry (the “TV Business”). The Board considers that Jiu Rong is a quality asset with proven track record (the TV Business of Jiu Rong as a business segment of SOYEA generated stable profit after tax of over RMB10 million for the three consecutive years ended 31 December 2012).

The Directors consider that the Proposed Acquisition fulfills the requirements as set out in the Listing Committee Annual Report 2010 which stated that “where the resumption proposals involved very substantial acquisition from third parties independent of the incoming investors, the Stock Exchange would not apply reverse takeovers rules to acquisition of business in the same line as the company’s original businesses before suspension”. Thus, the Directors are of the view that the relaxation of the reverse takeovers rules should apply to the Proposed Acquisition, and such view is subject to the review hearing by the Listing (Review) Committee.

On 21 August 2013, the Company and Yue Xiu Securities Company Limited (“Yue Xiu”) entered into an underwriting agreement, pursuant to which, Yue Xiu has conditionally agreed pursuant to the underwriting agreement to underwrite an aggregate of 2,400,000,000 offer shares on a fully underwritten basis at the offer price of HK\$0.10 per offer share (the “Open Offer”). Upon completion of the Open Offer, the Company will be able to raise net proceeds of approximately HK\$233,000,000, of which (i) HK\$133,350,000 will be used to settle the Proposed Acquisition; (ii) the remaining HK\$99,650,000 as general working capital of the Group. Should the acquisition consideration be settled before the completion of the Open Offer by internal resources of the Group and/or bank or other borrowings, the net proceeds from the open offer will be used for replenishment/repayment of such internal resources of the Group and/or bank or other borrowings.

On 21 August 2013, the Company submitted a revised resumption proposal including the details of the Proposed Acquisition and the Open Offer (please refer to the announcement of the Company dated 28 August 2013 for details of the Proposed Acquisition and the Open Offer) to Listing (Review) Committee of the Stock Exchange, the review hearing by the Listing (Review) Committee to be held on 26 September 2013. The Company will update the shareholders and investors the results of the review hearing as and when appropriate.

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

As at 30 June 2013, so far as the Directors are aware, the following persons have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is, directly or indirectly interested in 5% or more in the issued share capital of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

notes:

- Z-Idea Company Limited ("Z-Idea") is wholly owned by Mr. Zhang Shuyang ("Mr. Zhang"), a former Executive Director. Included in the 249,000,000 shares are, 224,000,000 shares (representing 56% of the issued share capital of the Company) which are subject to a loan agreement and memorandum dated 30 July 2010 entered into between Z-Idea, the Company, Mr. Zhang and Kingston Finance Limited ("Kingston"), details of which are set out in the announcement of the Company dated 2 August 2010. Pursuant to the loan agreement, Kingston agreed to provide a loan of HK\$15,000,000 to the Company. The loan agreement imposes an obligation on the Company, among other things, to deliver the Z-Idea share charge and the personal guarantee from Mr. Zhang as securities for the loan, and to procure Z-Idea to maintain a minimum shareholding in the Company in respect of the charged shares.
- The interest in 249,000,000 shares is deemed corporate interest through Z-Idea which is beneficially and wholly owned by Mr. Zhang.

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

3. Kingston is owned as to 100% by Ample Cheer Limited. Ample Cheer Limited is 80% owned by Best Forth Limited and Best Forth Limited is wholly owned by Ms. Chu Yuet Wah. The 224,000,000 shares represent the securities for the loan of HK\$15,000,000 from Kingston.
4. The interest in 224,000,000 shares is deemed corporate interest through Kingston.
5. The interest in 224,000,000 shares is deemed corporate interest through Ample Cheer Limited.
6. The interest in 224,000,000 shares is deemed corporate interest through Best Forth Limited.
7. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng as to 95% and 5% respectively.
8. The interest in 45,000,000 shares is a deemed corporate interest through Good Day International Limited.
9. The letter L denotes a long position and S denotes a short position.

Save as disclosed above, so far as the Directors are aware, no person was interested in or had a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of SFO as at 30 June 2013.

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

As at 30 June 2013, none of the Directors and Chief Executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Division 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2013.

Directors' Compliance with Model Code

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards of the Model Code throughout the six months ended 30 June 2013.

Compliance on Corporate Governance Practices

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

Audit Committee

The Audit Committee has reviewed with the management of the Company the accounting principals and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the Interim Financial Statements for the six months ended 30 June 2013 with the Directors.

Publication of Interim Results Announcement and Interim Report

The interim results announcement and interim report of the Group for the six months ended 30 June 2013 are available for viewing on the website of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkex.com.hk and on the website of the Company at www.irasia.com/listco/hk/2358.

Suspension of Trading

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

Board of Directors

As at the date of this report, the Executive Directors are Mr. Siu Chi Ming and Mr. Tang Chin Wan, the Independent Non-executive Directors are Ms. Au Shui Ming and Mr. Martin He.

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

Hong Kong, 30 August 2013