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 2011

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr. Leung Koon Sing
Mr. Tang Chin Wan
Mr. Siu Chi Ming (appointed on 9 February 2012)

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

AUTHORISED REPRESENTATIVES

Mr. Leung Koon Sing
Mr. Jan Wing Fu, Barry (appointed on 1 February 2012)

AUTHORISED REPRESENTATIVES

(to accept service of process and notices
under Part XI of the Hong Kong Companies Ordinance)
Mr. Leung Koon Sing
Mr. Jan Wing Fu (appointed on 1 February 2012)

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

STOCK CODE

2358

WEBSITE

http://www.mitsumaru-ek.com

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

For the year ended 31 December 2011, the Group achieved approximately HK$316,184,000 in turnover in continuing operations which, representing an increase of approximately 242% from HK$92,555,000 in the previous year. The gross profit under continuing operations was approximately HK$11,003,000 representing an increase of approximately HK$9,541,000 from that of gross loss approximately HK$1,462,000 in the previous year. The loss for the Year attributable to owners of the Company was approximately HK$27,175,000 while that for the year ended 31 December 2010 was approximately HK$49,749,000. Basic loss per share attributable to owners of the Company was approximately HK6.8 cents while that for the year ended 31 December 2010 was HK12.4 cents. As at 31 December 2011, balance of cash and cash equivalents were approximately HK$12,662,000.

Turnover

For the year under review, the Group recorded approximately HK$316,184,000 in turnover, an increase of 242% as comparing to last year. The increase in the Group's turnover was mainly due to the management's success on business and product-mix transformations so as to improve operation.

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, Hong Kong, India, Japan and Taiwan) increased from approximately HK$66,693,000 for the year ended 31 December 2010 to approximately HK$258,690,000 in 2011, representing a increased of approximately 288%. In the overseas market, the Company aims at the developing countries such as Russia, Africa and Brazil. In 2011, the sales performance of South America segment was significantly improved. The turnover generated from South America increased from approximately HK$5,621,000 for the year of 31 December 2010 to approximately HK$45,524,000 for the year of 31 December 2011.

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 increased from approximately HK$52,678,000 which representing approximately 57% of total sale in 2010 to approximately HK$244,457,000 which representing approximately 77% of total sale in 2011. The substantial increase was mainly due to the management's success on business and product-mix transformations during the year under review.

(ii) Assembly

This assembly segment was discontinued in the year under review. Details of the discontinued operation is set out on Note 12 of the Financial Statements in this annual report.

(iii) Trading

The performance of trading segment turns around in the year of 2011. The sale jumped from approximately HK$39,878,000 or 43% of the total sale in 2010 to approximately HK$71,727,000 or 23% of total sale in 2011.

Management Discussion and Analysis

Gross Profit Margin

During the year under review, the increase in gross profit was mainly due to the improvement in Group's turnover and the launch of new products which enhanced and expanded the Group's product mix.

The Group remains confidence to bring improvement to the gross profit margin in the future due to the increase in sales of LED TV and 3D TV products as well as the improvement of our product quality and procurement costs.

Expenses

During the year, the Group had adopted stringent cost controls on its operation. Management of the Group always believes that maintaining a high standard of cost control on expenses were for the benefits of the Group. Therefore, management regularly reviewed and updated controls and procedures to ensure that cost control objectives can be achieved.

The Group's selling and distribution costs under continuing operations increased slightly from approximately HK$4,450,000 in 2010 to approximately HK$4,933,000 during the year, primarily attributable to the increase in turnover and the successful implementation of cost controls in 2011.

The administrative expenses under continuing operations decreased slightly from approximately HK$32,777,000 in 2010 to approximately HK$38,223,000 during the year, again it was mainly due to the implementation of cost controls in 2011.

The increase in its finance expenses was mainly due to a loan obtained from New Prime Holdings Limited in December 2010.

Financial Position and Liquidity

	31 December 2011	31 December 2010
Current ratio	**0.34**	0.40
Quick ratio	**0.29**	0.32
Gearing ratio	**186%**	186%

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

For the year under review, the Group used approximately HK$91,003,000 (2010: approximately HK$38,453,000) of cash from its operations. As at 31 December 2011, the Group had cash and cash equivalents of approximately HK$12,662,000 (2010: approximately HK$86,250,000). The decrease in cash and cash equivalents was mainly due to repayment of other loans from third parties plus cash used in operation offset by the proceeds from a bank loan.

As at 31 December 2011, deficit in shareholders' equity was approximately HK$147,956,000 (2010: HK$120,243,000). Current assets of the Group amounted to approximately HK$114,980,000 (2010: approximately HK$138,499,000). The current ratio and quick ratio were approximately 0.34 and 0.29 (2010: approximately 0.40 and 0.32), respectively.

As at 31 December 2011, the Group's net debts amounted to approximately HK$320,177,000 (2010: HK$259,604,000) and the gearing ratio, representing the ratio of net debts divided by the capital plus net debts remained at 186% in 2011 and 2010. In order to ensure sufficient funds available for operation, the Group had obtained a three year loan

Management Discussion and Analysis

facility of approximately Renminbi ("RMB") 60,000,000 (equivalent to approximately HK$73,308,000) from a commercial bank in the People's Republic of China (the "PRC"). As at 31 December 2011, the unutilised balance of the bank loan was approximately RMB35,000,000 (equivalent to approximately HK$42,763,000).

Trade and notes receivables increased from approximately HK$16,329,000 as at 31 December 2010 to approximately HK$45,333,000 as at 31 December 2011 which was in line with the increase in turnover. During the year, approximately HK$9,270,000 was provided for impairment losses.

Capital Expenditure

The Group's total capital expenditures on property, plant and equipment during the year amounted to approximately HK$2,353,000 (2010: HK$1,401,000).

Pledge of Assets

As at 31 December 2011, all assets of the Group with an aggregate carrying value of approximately HK$191,958,000 (2010: certain assets of approximately HK$233,526,000) were pledged to secure borrowings of the Company and of the Group.

Capital Structure and Foreign Exchange Risk

During the year under review, 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 and feasible.

Contingent Liabilities and Capital Commitments

As at 31 December 2011, 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$13,879,000 (2010: HK$28,400,000) under litigations.

The Group had capital commitments of HK$8,080,000 (2010: nil) as at 31 December 2011.

Employees Benefit and Expenses

As at 31 December 2011, there were 296 employees in the Group (2010: 442). The total amount of employee remuneration incurred for the year ended 31 December 2011 was approximately HK$16,706,000 (2010: approximately HK$18,487,000). The Group determines employees' remuneration by the work responsibilities, job performance and professional experience. The Group also provides employees on-job training from time to time to upgrade the knowledge, skills and overall caliber of its employees. In addition, the Group granted employees option scheme as an encouragement.

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the Group achieved a turnaround in the Group's turnover. In the face of multiple challenges, most notably rising raw material costs and wages, the Group embarked on strategies which proved effective in tapping the opportunities presented by the recovering global economy. Thus the Group delivered a significant improvement in overall performance during the year.

Subsequent to the granting of the HK$100,000,000 loan from New Prime Holdings Limited (a wholly owned subsidiary of China Water Affairs Group Limited) in December 2010, the working capital position of the Group has been substantially improved. The injection of new cash is very imperative in growing the Group's business and expediting the business transformation. As at 31 December 2011, the Group recorded sales of about HK$316,184,000 soaring 242% based on a year on year basis. The management anticipate this continuing trend will persist in 2012 on onward and that the Group's level of operations will soon be satisfactory.

OUTLOOK

Despite 2011 worldwide economic was unstable and depressed, the Group has successfully improved its financial position by increasing its turnover of approximately 242% as compared to last year.

To enhance the profit margin and cash position of the Group, the Group has disposed of its unpromising and loss making assembly of CRT TV business in December 2011 to pave the way for the rationalizing of the Group's strategic business focus on LCD TV production and trading business and re-secured an entrusted loan from a commercial bank in the PRC of RMB60,000,000 respectively.

The management has been trying its best endeavors in 2011 to address all the conditions imposed by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the application of resumption of trading of the Company's shares. Even though the Company could not resume trading of its shares in 2011, taken into account that the Group's resumption application process and the significant improvement in the Group's financial position, China Water Affairs Group Limited ("CWA") has agreed to extend the loan of HK$100,000,000 (will be capitalized once the Stock Exchange grated the resumption approval) to 31 December 2012 to comply with one of the requirements imposed by the Stock Exchange for the resumption of trading.

To further enrich the financial resources of the Group after resumption of trading, the Group will carry out a fund raising activity by way of open offer and in order to facilitate the open offer, the Group has secured two possible underwriters to fully underwrite 1,500,000,000 offer shares of approximately HK$150,000,000. In the event the two possible underwriters are unable to perform their underwriting obligation, the open offer will continue to proceed given that CWA has signed a legally binding letter to the Group stating that CWA will unconditionally and irrevocably underwrite the whole amount.

Once the above mentioned capitalization of CWA's loan and open offer completed, the Group's asset and cash position will be significantly improved and hence the Group can not only deploy its resources on the LCD TV production and trading business, but also will able to explore more investment opportunities in production of electronic-related products which the Group believes will have promising future and generate significant profitability in medium to long term which will benefit the Group and the Shareholders as a whole.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Leung Koon Sing, aged 52, 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 51, 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.

Mr. Siu Chi Ming, aged 31, holds a Bachelor of Business Administration (Accounting) from Hong Kong Baptist University. Mr. Siu is a member of the Association of Chartered Certified Accountants and an associate of Hong Kong Institute of Chartered Secretaries as well as the Institute of Chartered Secretaries and Administrators. Prior to joining the Group, Mr. Siu was a senior manager of a corporate finance division of a licensed corporation registered under Securities and Futures Ordinance (the "SFO") and a licensed person registered under the SFO to carry on type 6 (advising on corporate finance) regulated activities, Mr. Siu has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganization and a variety of fund raising exercises. He is currently responsible for the overall management of the Group. Mr. Siu joined the Group and was appointed as a Director on 9 February 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwong Ping Man, aged 47, 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 Century Sunshine Group Holdings Limited (Stock Code: 00509) and Tang Palace (China) Holdings Limited (Stock Code: 01181).

Mr. Martin He, aged 48, 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. He is the committee members of the Business Corporate Development Committee and the Fund Raising Committee, Hong Kong Society of Rehabilitation; and the Tender Committee, Hong Kong West Cluster, The Hospital Authority, Hong Kong. Mr. He is also the governor of Maclahose Rehabilitation Centre, Hong Kong. Mr. He is one of the founders and directors of Zensation Avant Charity Fund in Hong Kong.

Mr. Mu Xiangming, aged 57, 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.

SENIOR MANAGEMENT

Mr. Jan Wing Fu, Barry, aged 45, is the Chief Financial Officer and Company Secretary of the Company. Mr. Jan is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. He obtained a bachelor's degree in business administration from the University of New Brunswick, Canada in 1989. Mr. Jan has over 20 years of solid experience in auditing, accounting, general management and financial control. Mr. Jan joined the Group on 30 Dec 2011 and was appointed as the Company Secretary of the Company on 1 February 2012.

Mr. Shao Zhibin, aged 45, 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.

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.

Chairman and Chief Executive

Under the code provision A.2.1 of the Corporate Governance Code, among others, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the year ended 31 December 2011 and up to the date hereof, the posts of chairman and chief executive were vacant. The Board will keep reviewing the current structure of the Board from time to time and should candidates with suitable knowledge, skill, and experience be identified, the Company will make appointments to fill the posts as and when appropriate.

THE BOARD OF DIRECTORS

Composition of the Board

During the financial year ended 31 December 2011 and up to the date of this report, composition of the Board was:

Executive Directors:

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

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

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

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

Corporate Governance Report

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 the Board's approval before public publication;

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, 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 under review, nine 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. Leung Koon Sing	9/9	100%
	Mr. Tang Chin Wan	8/9	89%
Independent Non-executive Directors	Mr. Kwong Ping Man	8/9	89%
	Mr. Martin He	9/9	100%
	Mr. Mu Xiangming	9/9	100%
Average attendance rate			**96%**

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 under review, the Audit Committee reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011. 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 2010.

During the year under review, 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	2/2	100%
Average attendance rate			**100%**

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 under review, 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 Nomination Committee 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

The fees paid/payable in respect of services provided by the Group's external auditor during the year ended 31 December 2011 were as follows:

	2011	2010
	HK$'000	HK$'000
Audit services	**1,343**	1,057
Non-audit services	**1,753**	151

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 Group's and 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 24 and 25 of this annual report.

SUSPENSE OF TRADING IN THE SHARES

At the direction of the Stock Exchange, trading in the Company's shares ("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.

During the year, the Company submitted two Resumption Proposals to The Stock Exchange on 31 March, 2011 and 28 December 2011 respectively. The Resumption Proposals comprises a fund raising exercise of HK$150,000,000 by way of an open offer to be underwritten by independent underwriters under which, all Shareholders are to take up the offer shares according to their respective shareholding interest in the Company. The entitled offer price is HK$0.10 per share which is equivalent to the subscription price of the Investor under the Subscription. The Resumption Proposals, 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 Proposals, also sets out the action and expected timeframe for addressing all the issues raised by the Stock Exchange.

On behalf of the Board

Siu Chi Ming
Executive Director

Hong Kong
30 March 2012

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Notes 1 and 20 to the financial statements respectively. 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 2011 are set out in the financial statements on pages 26 to 99. The Directors do not recommend the payment of any dividend for the year ended 31 December 2011.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated financial results and consolidated assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 100 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in Notes 16 and 17 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 ended 31 December 2011 are set out in Notes 32 and 38 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 2011, so far as the Directors are aware, the following persons have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is, directly or indirectly interested in 5% or more in the issued share capital of the Company, as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholders	Class of Shares	Capacity	Number of Shares held (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:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, a former Executive Director. Included in the 249,000,000 shares, 224,000,000 shares (representing 56% of the issued share capital of the company) are subject to a Loan Agreement and Memorandum dated 30 July 2010 entered into between Z-Idea Company Limited, Mitsumaru East Kit (Holdings) Limited, Mr. Zhang 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 2011.

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.

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).

Directors' Report

As at 31 December 2011, options to subscribe for 18,760,000 shares in aggregate at an exercise price of HK$1.068 per share have been granted by the Company to a total of 40 employees of the Group. Particulars of the options which have been granted to continuous contract employees of the Group under the Pre-IPO Share Option Scheme are set out below:

				Number of option shares			
Grantee	Date of grant	Exercise price per share (HK$)	Balance as at 1 January 2011	Exercised during the year ended 31 December 2011	Lapsed during the year ended 31 December 2011	Balance as at 31 December 2011	Exercise period
Continuous contract employees							
Senior management employees	25/06/2004	1.068	11,320,000	—	(720,000)	10,600,000	25/06/2004–24/06/2014
Other employees	25/06/2004	1.068	9,980,000	—	(1,820,000)	8,160,000	25/06/2004–24/06/2014
Grand Total			21,300,000	—	(2,540,000)	18,760,000	

(b) Share Option Scheme

As at 31 December 2011, 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 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.

Directors' Report

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 2011. 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 58% of the total sales for the year and sales to the Group's largest customer included therein accounted for approximately 21% of total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 63% of the total purchases for the year and purchases from the Group's largest supplier included therein accounted for approximately 19% 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. Leung Koon Sing
Mr. Tang Chin Wan
Mr. Siu Chi Ming (appointed on 9 February 2012)

Independent Non-executive Directors:

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

Pursuant to article 87(1) of the Articles, Mr. Martin He and Mr. Mu Xiangming will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company scheduled on 1 June 2012 (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 8 and 9 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Leung Koon Sing ("Mr. Leung"), an Executive Director, has entered into a service contract with the Company on 29 July 2011 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$360,000.

Mr. Tang Chin Wan, an Executive Director, has entered into a service contract with the Company on 22 September 2011 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. On 1 February 2012, the fee was adjusted to HK$10,000 per month for the remaining contract period after an annual review by the Company.

Mr. Siu Chi Ming, an Executive Director, has entered into a service contract with the Company on 8 February 2012 which shall continue to be effective unless terminated by three months' notice in writing served by either party on the other or payment in lieu. He is entitled to receive a director's fee HK$10,000 per month which was determined with reference to market terms, qualifications and work experience of him, plus a discretionary year-end bonus to be determined by the Board from time to time.

Mr. Kwong Ping Man, an Independent Non-executive Director, has entered into a service contract with the Company on 6 March 2012 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 7 June 2011 for a term of two years for an annual fee of HK$180,000. On 1 February 2012, the annual fee for Mr. Kwong Ping Man, Mr. Martin He and Mr. Mu Xiangming were adjusted to HK$10,000 per month for the remaining individual contract period after an annual review by the Company.

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 2011, 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 37 "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 10 to 15 of this annual report.

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.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditor, BD0 Limited.

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.

During the year, the Company submitted two Resumption Proposals to The Stock Exchange on 31 March, 2011 and 28 December 2011 respectively. The Resumption Proposals comprises a fund raising exercise of HK$150,000,000 by way of an open offer to be underwritten by independent underwriters under which, all Shareholders are to take up the offer shares according to their respective shareholding interest in the Company. The entitled offer price is HK$0.10 per share which is equivalent to the subscription price of the Investor under the Subscription. The Resumption Proposals, 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 Proposals, also sets out the action and expected timeframe for addressing all the issues raised by the Stock Exchange.

On Behalf of the Board

Siu Chi Ming
Executive Director

Hong Kong
30 March 2012

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 26 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 judgement, 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 2011, 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$27,261,000 for the year ended 31 December 2011, as of that date, the Company and the Group had net current liabilities of approximately HK$132,478,000 and HK$219,541,000, respectively and the Group had net liabilities of approximately HK$147,209,000. 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$13,879,000. 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, 30 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
Turnover	5	**316,184**	92,555
Cost of sales		**(305,181)**	(91,093)
Gross profit		**11,003**	1,462
Other income and gains	6	**21,272**	6,208
Selling and distribution costs		**(4,933)**	(4,450)
Administrative expenses		**(38,223)**	(32,777)
Other operating expenses		**(10,821)**	(10,287)
Share of loss of an associate		**(29)**	(5,914)
Gain recognised on disposal of an associate		**796**	—
Finance costs	7	**(11,337)**	(3,831)
Loss before income tax	8	**(32,272)**	(49,589)
Income tax credit	11	**324**	398
Loss for the year from continuing operations		**(31,948)**	(49,191)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	12	**4,687**	(1,187)
Loss for the year		**(27,261)**	(50,378)
Other comprehensive income, after tax			
Release of exchange fluctuation reserve on disposal of subsidiaries		**(3,713)**	—
Gain on revaluation of buildings		**2,812**	367
Exchange differences on translating foreign operations		**397**	670
Other comprehensive income, net of tax	15	**(504)**	1,037
Loss and total comprehensive income for the year		**(27,765)**	(49,341)
Loss attributable to:			
— Owners of the Company		**(27,175)**	(49,749)
— Non-controlling interests		**(86)**	(629)
		(27,261)	(50,378)
Total comprehensive income attributable to:			
— Owners of the Company		**(27,713)**	(48,738)
— Non-controlling interests		**(52)**	(603)
		(27,765)	(49,341)
Loss per share	14		
From continuing and discontinued operations			
— Basic and diluted		**HK6.8 cents**	HK12.4 cents
From continuing operations			
— Basic and diluted		**HK8.0 cents**	HK12.1 cents

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**58,270**	71,750
Investment property	17	**12,118**	11,786
Prepaid land premiums	18	**5,994**	8,133
Golf club membership	19	**360**	360
Interests in associates	21	**—**	2,772
Available-for-sale investment	22	**236**	226
Total non-current assets		**76,978**	95,027
Current assets			
Inventories	23	**16,373**	28,830
Trade and notes receivables	24	**45,333**	16,329
Prepayments, deposits and other receivables	25	**40,612**	7,090
Cash and cash equivalents	26	**12,662**	86,250
Total current assets		**114,980**	138,499
Current liabilities			
Trade and bills payables	27	**122,135**	152,876
Other payables, accrued expenses and deposits received		**31,370**	27,082
Bank loan	28	**30,545**	—
Other loans	29	**143,928**	161,205
Derivative financial instrument	30	**4,861**	4,691
Tax payable		**1,682**	948
Total current liabilities		**334,521**	346,802
Net current liabilities		**(219,541)**	(208,303)
Total assets less current liabilities carried forward		**(142,563)**	(113,276)

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Total assets less current liabilities brought forward		**(142,563)**	(113,276)
Non-current liabilities			
Deferred tax liabilities	31	**4,646**	6,193
Total non-current liabilities		**4,646**	6,193
Net liabilities		**(147,209)**	(119,469)
Equity attributable to owners of the Company			
Issued capital	32	**40,000**	40,000
Reserves	33(a)	**(187,956)**	(160,243)
		(147,956)	(120,243)
Non-controlling interests		**747**	774
Total deficits		**(147,209)**	(119,469)

On behalf of the Board

Siu Chi Ming
Director

Tang Chin Wan
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Interests in subsidiaries	20	**–**	–
Total non-current assets		**–**	–
Current assets			
Deposits and other receivables	25	**10,124**	181
Amounts due from subsidiaries	20	**15**	6,031
Cash and cash equivalents	26	**9,435**	63,717
Total current assets		**19,574**	69,929
Current liabilities			
Other payables and accrued expenses		**6,238**	5,058
Other loans	29	**140,263**	145,904
Derivative financial instrument	30	**4,861**	4,691
Tax payables		**690**	–
Total current liabilities		**152,052**	155,653
Net current liabilities		**(132,478)**	(85,724)
Total assets less current liabilities		**(132,478)**	(85,724)
Net liabilities		**(132,478)**	(85,724)
Equity			
Issued capital	32	**40,000**	40,000
Reserves	33(b)	**(172,478)**	(125,724)
Total deficits		**(132,478)**	(85,724)

On behalf of the Board

Siu Chi Ming
Director

Tang Chin Wan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company											
	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$'000	Total deficits HK$'000
At 1 January 2010	40,000	52,557	5,161	4,990	28,419	701	19,761	18,100	(241,194)	(71,505)	1,377	(70,128)
Loss for the year	–	–	–	–	–	–	–	–	(49,749)	(49,749)	(629)	(50,378)
Other comprehensive income (Note 15)	–	–	–	–	–	–	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 and 1 January 2011	40,000	52,557*	4,888*	4,990*	28,419*	701*	20,128*	18,744*	(290,670)*	(120,243)	774	(119,469)
Loss for the year	–	–	–	–	–	–	–	–	(27,175)	(27,175)	(86)	(27,261)
Other comprehensive income (Note 15)	–	–	–	–	–	–	2,812	(3,350)	–	(538)	34	(504)
Total comprehensive income for the year	–	–	–	–	–	–	2,812	(3,350)	(27,175)	(27,713)	(52)	(27,765)
Share options lapsed during the year	–	–	(263)	–	–	–	–	–	263	–	–	–
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	25	25
Transfer of buildings revaluation reserve on disposal of properties	–	–	–	–	–	–	(6,587)	–	6,587	–	–	–
At 31 December 2011	40,000	52,557*	4,625*	4,990*	28,419*	701*	16,353*	15,394*	(310,995)*	(147,956)	747	(147,209)

* These reserve accounts comprise the consolidated deficit in reserves of HK$187,956,000 (2010: HK$160,243,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Loss before income tax		**(32,272)**	(49,589)
Profit/(loss) before tax from discontinued operation		**4,558**	(1,300)
		(27,714)	(50,889)
Adjustments for:			
Share of loss of an associate		**29**	5,914
Impairment of trade receivables, net		**5,809**	927
Interest income		**(21)**	(23)
Fair value change of a derivative financial instrument		**170**	(1,390)
Gain recognised on disposal of subsidiaries, net	12	**(8,393)**	—
Gain recognised on disposal of an associate	21	**(796)**	—
Impairment of amount due from an associate		**—**	59
Provision of impairment of other receivables		**—**	(113)
Impairment of property, plant and equipment		**741**	885
Impairment of an available-for-sale investment		**—**	125
Finance costs		**11,337**	3,831
Loss on disposal of property, plant and equipment		**62**	157
Depreciation of property, plant and equipment	16	**6,564**	10,406
Depreciation of investment property	17	**874**	740
Amortisation of prepaid land premiums		**219**	208
Write-down/(reversal of write-down) of inventories, net		**6,953**	(298)
Write-back on waiver of trade payables		**(4,940)**	(569)
Waive of interest expenses to the controlling beneficial shareholder		**(741)**	—
Operating loss before working capital changes		**(9,847)**	(30,030)
Decrease in inventories		**3,038**	1,982
Increase in trade and notes receivables		**(36,406)**	(1,245)
Increase in prepayments, deposits and other receivables		**(24,976)**	(919)
Decrease in trade and bills payables		**(30,245)**	(11,821)
Increase in other payables, accrued expenses and deposits received		**7,433**	3,580
Cash used in operations and net cash outflow from operating activities		**(91,003)**	(38,453)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash used in operations and net cash outflow from operating activities		**(91,003)**	(38,453)
Cash flows from investing activities			
Interest received		**21**	23
Purchases of property, plant and equipment		**(2,353)**	(2,320)
Proceeds from disposal of an associate	21	**3,668**	—
Proceeds from disposal of property, plant and equipment		**21**	50
Disposal of subsidiaries	34	**8,395**	—
Decrease in restricted deposits		**—**	227
Government grant received		**—**	2,297
Decrease in pledged deposits		**—**	881
Net cash inflow from investing activities		**9,752**	1,158
Cash flows from financing activities			
New other loans from third parties		**3,665**	156,340
Repayment of other loans from third parties		**(27,334)**	(11,300)
Repayment of bank loans		**—**	(22,760)
New bank loans		**30,545**	—
Repayment of advances from the controlling beneficial shareholder, net		**(845)**	(3,711)
Contribution from a non-controlling shareholder		**25**	—
Interest paid		**(1,187)**	(2,078)
Net cash inflow from financing activities		**4,869**	116,491
Net (decrease)/increase in cash and cash equivalents		**(76,382)**	79,196
Cash and cash equivalents at beginning of year		**86,250**	4,943
Effect of foreign exchange rate changes, net		**2,794**	2,111
Cash and cash equivalents at end of year (Note 26)		**12,662**	86,250

Notes to the Financial Statements

31 December 2011

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 2011, the Group had net current liabilities and net liabilities of approximately HK$219,541,000 (2010: HK$208,303,000) and HK$147,209,000 (2010: HK$119,469,000), respectively; and the Company had net current liabilities and net liabilities of approximately HK$132,478,000 (2010: HK$85,724,000). The Group incurred a loss of approximately HK$27,261,000 for the year ended 31 December 2011 (2010: HK$50,378,000). 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$13,879,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

- 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") of up to a principal amount of HK$100,000,000 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. Further details of the Loan are set out in Note 30;

Notes to the Financial Statements

31 December 2011

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 resumption of trading of the Company's shares, the Group will carry out an additional fund raising activity by way of 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 raise gross proceeds of HK$150,000,000 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 the underwriters have expressed intention to fully underwrite 1,500,000,000 offer shares under the Open Offer in an aggregate amount of HK$150,000,000; 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 had obtained a three-year loan facility of Renminbi ("RMB") 60,000,000 (equivalent to approximately HK$73,308,000) from a commercial bank in the People's Republic of China (the "PRC") and a wholly-owned subsidiary of CWA to finance the Group's working capital requirements. As at 31 December 2011, the unutilised balance of the bank loan was approximately RMB35,000,000 (equivalent to approximately HK$42,763,000). Further details of the entrusted loan are set out in Note 28; and

- The Group has been taking stringent cost control over general and administrative expenses and to seek new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

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 2011, on the basis that (a) the above share subscription by New Prime can be completed; (b) the above fund raising from the Open Offer can be completed; (c) the Group's future operations can generate sufficient cash flows; and (d) the Group is able to successfully implement the cost control and to seek new investment and business opportunities in the foreseeable future. Moreover, the major lenders of the Group have confirmed to provide continuing financial support to the Group so as to ensure the Group to meet its liabilities as and when they fall due for the twelve months from 31 December 2011 and to enable the Group to continue business for 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 2011 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.

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 2011

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

Other than as further explained below, the adoption of these new and revised standards and interpretations has no material impact on the Group's financial statements.

HKFRS 3 — Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements.

Notes to the Financial Statements

31 December 2011

2.3 ADOPTION OF HKFRSs *(continued)*

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

HKFRS 7 (Amendments)—Financial Instruments: Disclosures

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amount of the Group's trade receivables represents the Group's maximum exposure to credit risk in respect of these financial assets as at 31 December 2011 and 2010. The prior year financial statements included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKFRS 24 (Revised)—Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and concluded that the adoption of HKAS 24 (Revised) has no impact on the Group's disclosures of related party transactions and reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

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

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

Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[1]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]

1 Effective for annual periods beginning on or 1 January 2012
2 Effective for annual periods beginning on or 1 July 2012
3 Effective for annual periods beginning on or 1 January 2013
4 Effective for annual periods beginning on or 1 January 2015

2.3 ADOPTION OF HKFRSs *(continued)*

(b) New and revised HKFRSs that have been issued but not yet effective *(continued)*

Amendments to HKAS 12 — Deferred Tax — Recovery of Underlying Assets

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

Amendments to HKAS 1 (Revised) — Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit or loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 — Financial Instruments

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, classification 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.

Notes to the Financial Statements

31 December 2011

2.3 ADOPTION OF HKFRSs *(continued)*

(b) New and revised HKFRSs that have been issued but not yet effective *(continued)*

HKFRS 10 — Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The Implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 — Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 — Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs and the Directors are not yet in a position to quantify their effects on the Group's financial statements.

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.

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 that represent present ownership interest in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Notes to the Financial Statements

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 that represent present ownership interests in the subsidiary 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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

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 the higher of value in use and fair value less costs to sell.

(d) Property, plant and equipment

The building component of an owner-occupied leasehold property is 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 value arising on revaluation 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/accumulated losses.

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 recognsied 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%

Notes to the Financial Statements

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

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.

(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 its 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/Company 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 property;
- prepaid land premiums; and
- investments in subsidiaries and associates.

Notes to the Financial Statements

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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 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 receivables), 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 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(ii) Impairment loss on financial assets

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.

For loans and receivables

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.

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 include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in 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 and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are 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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial instruments *(continued)*

(iv) Convertible loan

The Group entered into a loan and the related share subscription agreements as detailed in Note 30, of which the conversion feature exhibits characteristics of an embedded derivative and hence was separated from the loan. On initial recognition, the conversion feature 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 derivative financial instrument 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 derivative financial instrument 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 issue of loan are allocated to the liability and derivative financial instrument components in proportion to the allocation of the proceeds. Transaction costs relating to the derivative financial instrument 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.

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, which is at the time of delivery and the title is passed to customer, 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;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(d) handling fee income, when the Group has provided financing to the approved parties for purchase of goods and accrued on a time basis, by reference to the period of financing; and

(e) management fee income, when the services are performed.

(l) Income taxes

Income taxes comprises current tax 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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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, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 group entities in currencies other than the currency of the primary economic environment in which they operate (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.

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, if any, are recognised in other comprehensive income and accumulated in equity as exchange fluctuation reserve. Exchange differences recognised in the profit or loss of group entities' individual 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 other comprehensive income and accumulated in equity as exchange fluctuation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange fluctuation 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 exchange fluctuation 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 for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by external independent professionally qualified valuers using binomial model, further details of which are given in note 38. 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 the 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 2011

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 or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employees are not met. 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 Electronic (Shanghai) Co., Ltd. and Shenzhen Mitsumaru Electrical Co., Ltd., and the Company's former subsidiary, Mitsumaru Electrical (Wuhu) Co., Ltd. which operate in the PRC are required to participate in a central pension scheme (the "CPB Scheme") operated by the local municipal governments. 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.

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 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 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

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 20.

(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$741,000 (2010: HK$885,000) 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 receivable balances, 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 20 and 24 respectively.

Notes to the Financial Statements

31 December 2011

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

(iv) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against 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 2011 are set out in Note 31.

(v) Fair value of derivative financial instrument

As explained in Note 30, the Directors use their judgement in selecting an appropriate valuation technique for the derivative financial instrument 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 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 an inventory write-down of approximately HK$6,953,000 for the year (2010: a net reversal of write-down of inventories of HK$298,000).

(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 2011 was approximately HK$44,466,000 (2010: HK$55,593,000).

4. SEGMENT INFORMATION

(i) Reportable segments

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. The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

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;

- Trading — Trading of components related to colour televisions; and

- Assembly — Assembling of CRT colour televisions and the trading of related components.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

Notes to the Financial Statements

31 December 2011

4. SEGMENT INFORMATION *(continued)*

(i) Reportable segments *(continued)*

(a) *Business Segments*

	2011				
	Continuing Operations			Discontinued Operation	
	Design and assembly HK$'000	Trading HK$'000	Total HK$'000	Assembly HK$'000	Total HK$'000
Reportable segment revenue	244,582	116,718	361,300	7,778	369,078
Inter-segment revenue	(125)	(44,991)	(45,116)	(14)	(45,130)
Revenue from external customers	244,457	71,727	316,184	7,764	323,948
Reportable segment (loss)/profit	(15,157)	2,447	(12,710)	(3,835)	(16,545)
Interest expense	(1,764)	(78)	(1,842)	(1)	(1,843)
Depreciation of property, plant and equipment	(5,461)	(178)	(5,639)	(728)	(6,367)
Depreciation of investment property	(874)	–	(874)	–	(874)
Amortisation of prepaid land premiums	(164)	–	(164)	(55)	(219)
Write-down of inventories	(6,286)	–	(6,286)	(667)	(6,953)
Write-back on waiver on trade payable	4,940	–	4,940	–	4,940
Impairment of trade receivables	(5,027)	–	(5,027)	–	(5,027)
Share of loss of an associate	(29)	–	(29)	–	(29)
Reportable segment assets	176,931	31,890	208,821	–	208,821
Additions to property, plant and equipment	2,273	64	2,337	–	2,337
Reportable segment liabilities	(196,775)	(36,950)	(233,725)	–	(233,725)

Notes to the Financial Statements

31 December 2011

4. SEGMENT INFORMATION *(continued)*

(i) Reportable segments *(continued)*

(a) *Business Segments (continued)*

	2010				
	Continuing Operations			Discontinued Operation	
	Design and assembly HK$'000	Trading HK$'000	Total HK$'000	Assembly HK$'000	Total HK$'000
Reportable segment revenue	54,096	48,200	102,296	31,820	134,116
Inter-segment revenue	(1,418)	(8,322)	(9,740)	(278)	(10,018)
Revenue from external customers	52,678	39,878	92,556	31,542	124,098
Reportable segment loss	(32,511)	(7,483)	(39,994)	(3,946)	(43,940)
Interest expense	(1,168)	—	(1,168)	—	(1,168)
Depreciation of property, plant and equipment	(8,570)	(377)	(8,947)	(1,459)	(10,406)
Depreciation of investment property	(740)	—	(740)	—	(740)
Amortisation of prepaid land premiums	(156)	—	(156)	(52)	(208)
Impairment of property, plant and equipment	—	(727)	(727)	(158)	(885)
Impairment of trade receivables	543	(914)	(371)	(556)	(927)
Impairment of available-for-sale Investments	(125)	—	(125)	—	(125)
Reversal of impairment of other receivables, net	113	—	113	—	113
(Write-down)/reversal of write-down of inventories	1,343	(577)	766	(468)	298
Write-back on waiver of trade payable	569	—	569	—	569
Share of loss of an associate	(5,914)	—	(5,914)	—	(5,914)
Reportable segment assets	110,547	33,642	144,189	34,031	178,220
Additions to property, plant and equipment	1,350	42	1,392	9	1,401
Reportable segment liabilities	(124,275)	(88,926)	(213,201)	(13,751)	(226,952)

Notes to the Financial Statements

31 December 2011

4. SEGMENT INFORMATION *(continued)*

(i) Reportable segments *(continued)*

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

	2011 HK$'000	2010 HK$'000
Revenue		
Reportable segment revenue	**369,078**	134,116
Elimination of inter-segment revenue	**(45,130)**	(10,018)
Consolidated revenue	**323,948**	124,098

	2011 HK$'000	2010 HK$'000
Loss before income tax and a discontinued operation		
Reportable segment loss	**(16,545)**	(43,940)
Segment loss from a discontinued operation	**3,835**	3,946
Unallocated corporate expenses	**(9,980)**	(7,098)
Unallocated finance costs	**(9,582)**	(2,497)
Consolidated loss before income tax from continuing operations	**(32,272)**	(49,589)

	2011 HK$'000	2010 HK$'000
Assets		
Reportable segment assets	**208,821**	178,220
Elimination of inter-segment receivables	**(28,432)**	(8,988)
Unallocated cash and cash equivalents	**9,703**	64,061
Other unallocated corporate assets	**1,866**	233
Consolidated total assets	**191,958**	233,526

Notes to the Financial Statements

31 December 2011

4. SEGMENT INFORMATION *(continued)*

(i) Reportable segments *(continued)*

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

	2011 HK$'000	2010 HK$'000
Liabilities		
Reportable segment liabilities	**(233,725)**	(226,952)
Elimination of inter-segment payables	**50,054**	25,378
Other loans	**(140,263)**	(145,904)
Derivative financial instrument	**(4,861)**	(4,691)
Unallocated corporate liabilities	**(10,372)**	(826)
Consolidated total liabilities	**(339,167)**	(352,995)

(ii) Geographical information

The Group is domiciled in the PRC. 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	
Continuing operations	2011 HK$'000	2010 HK$'000
Algeria	**7,258**	—
Australia	**4,000**	5,660
Brazil	**45,524**	5,621
France	**—**	3,219
Hong Kong	**10,994**	992
India	**2,264**	—
Japan	**556**	1,219
PRC	**211,938**	64,482
Russia	**712**	11,311
Taiwan	**32,938**	—
Others	**—**	51
	316,184	92,555
Discontinued operation		
PRC	**7,764**	31,543
Total	**323,948**	124,098

Notes to the Financial Statements

31 December 2011

4. SEGMENT INFORMATION *(continued)*

(ii) Geographical information *(continued)*

	Specified non-current assets	
	2011	2010
	HK$'000	HK$'000
PRC	**76,710**	93,837
Hong Kong	**32**	964
	76,742	94,801

(iii) Major customer

Revenue from a customer under the design and assembly reportable segment of the Group amounted to approximately HK$66,998,000 for the year ended 31 December 2011 and another customer under assembly reportable segment of the Group amounted to approximately HK$27,971,000 for the year ended 31 December 2010, which represent 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.

6. OTHER INCOME AND GAINS

Continuing operations	**2011 HK$'000**	2010 HK$'000
Bank interest income	**21**	17
Rental income from an investment property	**2,130**	1,808
Fair value change of a derivative financial instrument	**(170)**	1,390
Gain on settlement of trade payables by inventories	**8,165**	1,785
Write-back on wavier of trade payables	**4,940**	569
Handling commission	**2,959**	—
Management fee	**540**	—
Waiver of interest payable to the controlling beneficial shareholder	**741**	—
Others	**1,946**	639
	21,272	6,208

7. FINANCE COSTS

Continuing operations	2011 HK$'000	2010 HK$'000
Interest on:		
— bank loan wholly repayable within five years	**771**	1,168
— loans from the controlling beneficial shareholder	**—**	415
— loans from third parties	**3,329**	1,213
— loan from New Prime	**7,237**	1,035
	11,337	3,831

8. LOSS BEFORE INCOME TAX

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

Continuing operations	2011 HK$'000	2010 HK$'000
Cost of inventories sold	**289,027**	77,572
Write-down of inventories	**6,286**	662
Reversal of inventory write-down (note (a))	**—**	(1,428)
Costs of inventories recognised as expense	**295,313**	76,806
Employee benefit expenses (including directors' remuneration — Note 9)		
— Wages and salaries	**14,431**	15,815
— Pension scheme contributions	**2,275**	2,672
	16,706	18,487
Depreciation of property, plant and equipment	**5,837**	8,947
Depreciation of investment property	**874**	740
Amortisation of prepaid land premiums	**164**	156
Minimum lease payments under operating leases in respect of		
— land and buildings	**4,784**	3,368
— plant and machinery	**178**	—
Auditor's remuneration	**1,343**	1,057
Research and development costs	**2,582**	2,830
Impairment of property, plant and equipment (Note 16)	**741**	727
Impairment of an available-for-sale investment	**—**	125
Loss on disposal of property, plant and equipment	**62**	157
Exchange losses, net	**1,279**	4,291
Impairment of amount due from an associate	**—**	59
Impairment of trade receivables, net	**5,809**	371
Reversal of impairment of other receivables, net	**—**	(113)

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

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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:

	2011 HK$'000	2010 HK$'000
Fees	**636**	636
Other emoluments:		
Salaries, allowances and benefits in kind	**1,306**	2,546
Pension scheme contributions	**—**	2
	1,306	2,548
	1,942	3,184

(a) Independent Non-Executive Directors

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

	2011 HK$'000	2010 HK$'000
Mr. Mu Xiangming	**180**	180
Mr. Martin He	**216**	216
Mr. Kwong Ping Man	**240**	240
	636	636

There were no other emoluments payable to the Independent Non-Executive Directors during the year (2010: Nil).

9. DIRECTORS' REMUNERATION *(continued)*

(b) Executive Directors

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2011			
Mr. Leung Koon Sing	**906**	**—**	**906**
Mr. Tang Chin Wan	**400**	**—**	**400**
	1,306	**—**	**1,306**
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

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.

During the year, no share options were granted under the Company's share option schemes to the Executive Directors in respect of their services to the Group.

10. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group during the year, three (2010: two) were Directors of the Company whose emoluments are included in the disclosures in Note 9 above. The emoluments of the remaining two (2010: three) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	**860**	1,267
Contributions to pension scheme	**12**	12
	872	1,279

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**2**	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.

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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%. In 2010, East Kit Electronic (Shanghai) Co., Ltd. and East Kit Electronic (China) Co., Ltd. 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. Accordingly, the applicable CIT rate of these two subsidiaries was 15% for the year ended 31 December 2010.

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

Continuing operations	**2011 HK$'000**	2010 HK$'000
Deferred tax credit	**(324)**	(398)

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

Continuing operations	**2011 HK$'000**	2010 HK$'000
Loss before income tax credit	**(32,272)**	(49,589)
Tax calculated at the domestic tax rate of 16.5% (2010: 16.5%)	**(5,325)**	(8,182)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(590)**	327
Tax effect of share of loss of an associate	**7**	887
Tax effect of revenue not taxable for tax purposes	**(222)**	(266)
Tax effect of expenses not deductible for tax purposes	**1,621**	1,929
Tax effect of tax losses not recognised	**9,374**	3,697
Tax effect of temporary differences not recognised	**(4,284)**	1,210
Utilisation of tax losses not recognised previously	**(905)**	—
Income tax credit	**(324)**	(398)

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 15).

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12. DISCONTINUED OPERATION

The Group's discontinued operation for the years ended 31 December 2011 and 2010 represented the assembling of CRT colour televisions and the trading of related components operated by Dragon Gain Resources Limited ("Dragon Gain") and its wholly-owned subsidiary, Mitsumaru Electrical (Wuhu) Company Limited ("Wuhu") (together referred to as "Dragon Gain Group").

On 17 November 2011, the Group entered into a sale agreement to dispose of its entire equity interest in Dragon Gain Group. The disposal was effected to streamline the non-core business. The disposal was completed on 31 December 2011, the date on which the control of Dragon Gain Group passed to the acquirer. The sales, results, cash flows and net assets of Dragon Gain Group were as follows:

	2011 **HK$'000**	2010 HK$'000
Turnover	**7,764**	31,543
Cost of sales	**(9,004)**	(29,572)
Other income and gains	**—**	97
Selling and distribution costs	**(170)**	(201)
Administrative expenses	**(2,418)**	(2,454)
Other operating expenses	**(6)**	(713)
Finance costs	**(1)**	—
Loss before income tax	**(3,835)**	(1,300)
Income tax credit	**129**	113
	(3,706)	(1,187)
Gain on disposal of a discontinued operation (including accumulated exchange gain of HK$3,713,000 reclassified from foreign currency translation reserve to profit or loss (Note 34))	**8,393**	—
Profit/(Loss) for the year from a discontinued operation	**4,687**	(1,187)
Operating cash flows	**(240)**	(209)
Investing cash flows	**(41)**	(4)
Financing cash flows	**—**	152
Total cash flows	**(281)**	(61)

The carrying amounts of the assets and liabilities of Dragon Gain Group at the date of disposal are disclosed in Note 34 to the financial statements.

A profit of HK$8,393,000 arose on the disposal of Dragon Gain Group, being the proceeds of disposal less the carrying amount of the net assets of the Dragon Gain Group. No tax charge or credit arose from the disposal.

For the purpose of presenting a discontinued operation, the comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operation discontinued during the year had been discontinued at the beginning of the comparative period.

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13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company for the year ended 31 December 2011 includes a loss of HK$5,897,000 (2010: HK$7,822,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic loss per share for the year is based on the loss for the year attributable to owners of the Company of HK$27,175,000 (2010: HK$49,749,000), and 400,000,000 (2010: 400,000,000) ordinary shares in issue during the year.

From continuing operations

The calculation of the basic loss per share for the year from continuing operations attributable to owners of the Company is based on the following data:

Loss figures are calculated as follows:

	2011 **HK$'000**	2011 HK$'000
Loss for the year attributable to owners of the Company	**(27,175)**	(49,749)
Profit/(loss) for the year from a discontinued operation	**4,687**	(1,187)
Loss for the purposes of basic loss per share from continuing operations	**(31,862)**	(48,562)

The denominators used are the same as those detailed above for basic loss per share.

From a discontinued operation

Basic earnings per share for the discontinued operation is HK1.2 cents per share (2010: HK0.3 cents loss per share), based on the profit for the year from the discontinued operation of HK$4,687,000 (2010: loss HK$1,187,000) and the denominators detailed above for basic loss per share.

The diluted loss per share for the years ended 31 December 2011 and 2010 is 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.

15. OTHER COMPREHENSIVE INCOME

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

Group	2011 Before-tax amount HK$'000	2011 Tax expenses HK$'000	2011 Net-of-tax amount HK$'000	2010 Before-tax amount HK$'000	2010 Tax expenses HK$'000	2010 Net-of-tax amount HK$'000
Reclassification of exchange fluctuation reserve on disposal of subsidiaries	**(3,713)**	**—**	**(3,713)**	—	—	—
Exchange differences on translating foreign operations	**397**	**—**	**397**	670	—	670
Gain on revaluation of buildings	**3,270**	**(458)**	**2,812**	2,861	(2,494)	367
	(46)	**(458)**	**(504)**	3,531	(2,494)	1,037

Notes to the Financial Statements

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16. 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 2010	67,495	41,105	10,866	34,512	153,978
Transfer to investment property (Note 17)	(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 and 1 January 2011	55,593	41,872	11,140	33,248	141,853
Transfer to investment property (Note 17)	(666)	—	—	—	(666)
Additions at cost	—	1,931	—	422	2,353
Disposals	—	(8)	(266)	(14)	(288)
On revaluation	(1,441)	—	—	—	(1,441)
Exchange realignments	2,551	1,203	488	1,535	5,777
Derecognised on disposal of subsidiaries	(11,571)	(7,654)	(478)	(946)	(20,649)
At 31 December 2011	44,466	37,344	10,884	34,245	126,939
Comprising:					
At cost	—	37,344	10,884	34,245	82,473
At 31 December 2011 valuation	44,466	—	—	—	44,466
	44,466	37,344	10,884	34,245	126,939

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

	Buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Accumulated depreciation and impairment					
At 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 and 1 January 2011	—	36,000	7,477	26,626	70,103
Depreciation	3,727	818	873	1,146	6,564
Eliminated on disposals	—	(1)	(203)	(1)	(205)
Impairment loss	—	741	—	—	741
Eliminated on revaluation	(3,781)	—	—	—	(3,781)
Exchange realignments	54	957	332	1,243	2,586
Eliminated on disposal of subsidiaries	—	(6,162)	(336)	(841)	(7,339)
At 31 December 2011	—	32,353	8,143	28,173	68,669
Net book value					
At 31 December 2011	44,466	4,991	2,741	6,072	58,270
At 31 December 2010	55,593	5,872	3,663	6,622	71,750

As at 31 December 2011, the Group's building with a carrying amount of HK$44,466,000 (2010: HK$44,098,000) was pledged to secure other loans (Note 29) and bank loan (Note 28) granted to the Group. In addition to building, other property, plant and equipment as at 31 December 2011 were pledged to secure the Loan from New Prime as detailed in Notes 29 and 30. As at 31 December 2010, one of the Group's buildings and certain of its motor vehicles with a carrying amount of HK$44,098,000 and HK$1,954,000 respectively were subject to asset-freezing orders. In February 2011, the building was released from asset-freezing orders. As at 31 December 2011, certain of the Group's motor vehicles with a carrying amount of HK$1,535,000 were subject to asset-freezing orders as further detailed in Note 27 to the consolidated financial statements.

As at 31 December 2011, the Group's buildings were 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$29,290,000 (2010: HK$34,665,000).

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$741,000 (2010: HK$885,000) is recognised and included in other operating expenses.

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17. INVESTMENT PROPERTY

	Group HK$'000
Cost	
At 1 January 2010	—
Transferred from property, plant and equipment (Note 16)	12,331
Exchange realignment	207
At 31 December 2010 and 1 January 2011	12,538
Transferred from property, plant and equipment (Note 16)	666
Exchange realignment	587
At 31 December 2011	13,791
Accumulated depreciation	
At 1 January 2010	—
Change for the year	740
Exchange realignment	12
At 31 December 2010 and 1 January 2011	752
Charge for the year	874
Exchange realignment	47
At 31 December 2011	1,673
Net book value	
At 31 December 2011	12,118
At 31 December 2010	11,786

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

As at 31 December 2011, the Directors consider the open market value of the Group's investment property to be approximately HK$13,219,000 (2010: 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 bank loan (Note 28) and other loans (Notes 29 and 30) granted to the Group. As at 31 December 2010, investment property was subject to asset-freezing orders and subsequently released in February 2011. As at 31 December 2011, no investment property was subject to asset-freezing order.

18. PREPAID LAND PREMIUMS

	Group	
	2011 **HK$'000**	2010 HK$'000
The Group's prepaid land premiums comprise land situated outside Hong Kong held under medium term leases	**6,160**	8,345
Current portion included in prepayments, deposits and other receivables	**(166)**	(212)
Non-current portion	**5,994**	8,133

The leasehold land was in the PRC and pledged to secure bank loan (Note 28) and other loans (Notes 29 and 30) from third parties.

As at 31 December 2010, prepaid land premiums with a carrying amount of HK$6,048,000 was subject to asset-freezing orders, and subsequently released in February 2011. As at 31 December 2011, no prepaid land premiums was subject to asset-freezing orders.

19. GOLF CLUB MEMBERSHIP

	Group	
	2011 **HK$'000**	2010 HK$'000
Cost at 1 January and 31 December	**360**	360

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20. INTERESTS IN SUBSIDIARIES

	Company	
	2011 **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**98,948**	98,948
Less: Impairment	**(98,948)**	(98,948)
	–	–
Amounts due from subsidiaries	**196,572**	161,731
Less: Impairment	**(196,557)**	(155,700)
	15	6,031

The above impairment losses were recognised during the years ended 31 December 2011 and 2010 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:

	2011 **HK$'000**	2010 HK$'000
At 1 January	**155,700**	140,115
Impairment loss recognised	**40,857**	15,585
At 31 December	**196,557**	155,700

Notes to the Financial Statements

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20. 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 and 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
Shenzhen Mitsumaru Electrical Co., Ltd. *#	PRC	Paid-up registered RMB4,000,000	–	67	Trading of components related to colour televisions
China Mutual Investment Limited	Hong Kong	HK$1	–	100	Investment Holding

* 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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21. INTERESTS IN ASSOCIATES

	Group	
	2011 HK$'000	2010 HK$'000
Share of net assets of associates	**–**	2,772

Details of the Group's associate as at 31 December 2011 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
Mitsumaru Japan Ltd. *	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.

	2011 HK$'000	2010 HK$'000
Assets	**17,050**	31,990
Liabilities	**31,843**	32,993
Revenue	**47,561**	37,357
Loss	**7,182**	18,172

The Group has discontinued recognition of its share of loss of an associate. The amounts of unrecognised share of loss of an associate, extracted from the relevant management accounts of the associate, both for the year and cumulatively, are as follows:

	2011 HK$'000	2010 HK$'000
Unrecognised share of loss of an associate for the year	**2,983**	1,168
Accumulated unrecognised share of loss of an associate	**6,145**	3,407

On 31 August 2011, the Group disposed of its 38.5% equity interest in 杭州朗奧光電有限公司 (formerly known as Cyber Opto-Electronical Technology Co., Limited) to a third party for a cash consideration of HK$3,668,000. This transaction has resulted in the recognition of a gain in profit or loss for the year, calculated as follows:

	Group HK$'000
Proceeds of disposal	3,668
Less: carrying amount of interest in an associate on the date of disposal	(2,872)
Gain recognised	796

22. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted equity investment, at cost	**794**	759
Less: impairment	**(558)**	(533)
	236	226

The above investment was investment in equity securities which were designated as available-for-sale financial assets.

As at 31 December 2011, unlisted equity investment of the Group with investment costs of HK$794,000 (2010: HK$759,000) 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. The Group has no plan to dispose of available-for-sale investment in the foreseeable future.

The above investment is a 21.7% equity interests in a PRC company, Shanghai Zhan Cheng Electronic Technology Co. Ltd., with a percentage of both the voting rights and profit sharing of 19.03%. This company is not accounted for by the equity accounting method as the Group does not have the power to participate in its operating and financial policies as evidenced by the lack of any direct or indirect representation at its board level.

23. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**5,260**	17,817
Finished goods	**11,113**	11,013
	16,373	28,830

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24. TRADE AND NOTES RECEIVABLES

	Group	
	2011	2010
	HK$'000	HK$'000
Trade and notes receivables	**204,899**	166,625
Impairment	**(159,566)**	(150,296)
	45,333	16,329

The Group's trading terms with its customers are mainly on credit, except for the new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days, extending to 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 at the end of reporting period, based on the invoice dates, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 90 days	**45,213**	10,613
91 days to 180 days	**74**	392
181 days to 1 year	**46**	1,135
Over 1 year	**—**	4,189
	45,333	16,329

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**150,296**	148,544
Impairment losses recognised	**5,896**	3,230
Reversal of impairment losses previously recognised	**(87)**	(2,303)
Eliminated on disposal of subsidiaries	**(843)**	—
Bad debts written off	**—**	(1,519)
Exchange realignments	**4,304**	2,344
At 31 December	**159,566**	150,296

The above provision for impairment of trade receivables of HK$159,566,000 (2010: HK$150,296,000) was made for individually impaired trade receivables with an aggregate carrying amount of HK$159,630,000 (2010: HK$160,408,000). 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.

24. TRADE AND NOTES RECEIVABLES *(continued)*

The ageing of trade and notes receivables which are past due but not impaired are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Less than 1 month past due	**11,360**	5,970
1 to 3 months past due	**355**	4,682
More than 3 months but less than 12 months past due	**46**	4,997
More than 12 months	**—**	175
	11,761	15,824

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

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. The Group does not hold any collateral or other credit enhancement over these receivables.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**299**	713	**—**	—
Amount due from an associate	**—**	59	**—**	—
Deposits and other receivables	**40,884**	9,658	**10,233**	290
	41,183	10,430	**10,233**	290
Impairment	**(571)**	(3,340)	**(109)**	(109)
	40,612	7,090	**10,124**	181

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

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

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

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
At 1 January	**3,281**	3,394	**109**	670
Impairment losses recognised	**—**	302	**—**	109
Reversal of impairment losses previously recognised	**—**	(415)	**—**	(670)
Bad debts written off	**(2,660)**	—	**—**	—
Eliminated on disposal of subsidiaries	**(73)**	—	**—**	—
Exchange realignments	**23**	—	**—**	—
At 31 December	**571**	3,281	**109**	109

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.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Cash and bank balances	**12,662**	86,250	**9,435**	63,717

Included in cash and bank balances as at 31 December 2011 of the Company and of the Group is a bank deposit of approximately HK$8,000 (2010: HK$63,009,000), the use of which is subject to letter of consent from New Prime as pursuant to an Assignment over Accounts dated 1 December 2010.

At the end of reporting period, cash and bank balances of the Group denominated in RMB amounted to HK$2,188,000 (2010: HK$1,136,000). 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.

27. TRADE AND BILLS PAYABLES

	Group	
	2011	2010
	HK$'000	HK$'000
Trade payables	**118,469**	152,876
Bills payable	**3,666**	—
	122,135	152,876

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	
	2011	2010
	HK$'000	HK$'000
Within 180 days	**38,119**	26,673
181 days to 1 year	**11,443**	2,227
1 to 2 years	**3,128**	34,875
Over 2 years	**69,445**	89,101
	122,135	152,876

As at 31 December 2011, 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$13,879,000 (2010: HK$28,400,000) under litigations.

During the year, the Group settled trade payables of approximately HK$18,765,000 in respect of trade payable balances of approximately HK$32,644,000 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 2010, the Group's buildings, prepaid land premiums, investment property and motor vehicles with an aggregate carrying amount of HK$63,886,000 were frozen 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 Shuyang ("Mr. Zhang"), the controlling beneficial shareholder and a former executive director of the Company.

As at 31 December 2011, certain of the Group's motor vehicles with a carrying amount of HK$1,535,000 were frozen under count-orders. Subsequent to the end of reporting period, a bank deposit account of East Kit (China) of approximately HK$322,000 was frozen under court order.

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28 BANK LOAN

	Effective interest rate (%)	2011 HK$'000	2010 HK$'000
Bank loan — current and secured	5.76	**30,545**	—

On 26 April 2011, East Kit (China) entered into an entrusted loan agreement ("Entrusted Loan Agreement") with a wholly owned subsidiary of CWA, and a commercial bank in the PRC. Pursuant to the Entrusted Loan Agreement, the subsidiary of CWA, through the bank, provided an Renminbi ("RMB") entrusted loan facility of RMB60,000,000 (approximately HK$73,308,000) to East Kit (China) for three years. The bank loan bears interest at a fixed rate of 5.76% per annum and repayable within one year from date of loan drawn down. As at 31 December 2011, the entrusted loan facility was utilised to the extent of RMB25,000,000 (approximately HK$30,545,000).

As at 31 December 2011, the bank loan was repayable on demand as the Entrusted Loan Agreement includes a clause that gives the lender the unconditional right to call the bank loan at any time. The bank loan is secured by the Group's buildings, investment property and prepaid land premiums with an aggregate carrying amount of approximately HK$62,744,000 as at 31 December 2011.

At 31 December 2011, the bank loan was scheduled to repay within one year.

29. OTHER LOANS

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Unsecured other loans from:				
Interest bearing				
— controlling beneficial shareholder (note (a))	**—**	300	**—**	300
— third parties (note (b))	**23,000**	35,500	**23,000**	35,500
— a third party (note (c))	**3,665**	—	**—**	—
Non-interest bearing				
— controlling beneficial shareholder (note (d))	**72**	617	**72**	150
— third parties (note (g))	**—**	8,994	**—**	—
	26,737	45,411	**23,072**	35,950
Secured other loans from:				
Interest bearing				
— a third party (note (e))	**15,000**	15,000	**15,000**	15,000
— New Prime (Note 30)	**102,191**	94,954	**102,191**	94,954
— a subsidiary of CWA (note (f))	**—**	5,840	**—**	—
	117,191	115,794	**117,191**	109,954
	143,928	161,205	**140,263**	145,904

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29. OTHER LOANS *(continued)*

Notes:

(a) Loan from the controlling beneficial shareholder, Mr. Zhang, was unsecured with interest charged at a fixed rate of 2% per annum. The loan was fully repaid in January 2011.

(b) Pursuant to promissory notes entered into by the Group with three independent third parties in July and August 2010, the Group promised to pay to these independent third parties a sum of HK$35,500,000 at a fixed rate of 2% per annum. These promissory notes were unsecured and repayable within one year. During the year, the Group repaid HK$12,500,000 and agreed with the independent third parties to extend the maturity date of the remaining loans to 31 December 2012.

(c) The unsecured loan from a third party at 31 December 2011 bears interest at a fixed rate of 1% per month and was matured on 31 December 2011. On 1 January 2012, the maturity date of the loan was extended to 30 June 2012.

(d) These non-interest bearing loans from the controlling beneficial shareholder are unsecured and 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 was interest bearing at 12% per annum, and was initially repayable on 30 Jun 2011. During the year, the loan was extended to 30 September 2012 with interest charged at 8% per annum.

(f) Loan from a subsidiary of CWA was secured by the Group's buildings, investment property and prepaid land premiums, with interest charged at 5.35% per annum and was fully repaid during the year.

(g) The unsecured loans from third parties at 31 December 2010 were non-interest bearing and matured on 31 December 2010. On 1 January 2011, the loans were renewed with interest charged at a fixed rate of 1% per month. These loan were fully repaid during the year.

30. CONVERTIBLE LOAN AND DERIVATIVE FINANCIAL INSTRUMENT

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 ("Long Stop Date") (The Long Stop Date was amended to 30 June 2012 in accordance with the terms stated in a supplementary agreement to the Subscription Agreement dated on 6 December 2011. The Long Stop Date may be extended by New Prime at its own discretion to a date not later than 31 December 2012 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.

On 6 December 2011, the Company entered into a supplemental agreement to Loan Agreement with New Prime to extend the repayment date to 31 December 2012 or the date of termination of the Subscription Agreement, whichever is later.

30. CONVERTIBLE LOAN AND DERIVATIVE FINANCIAL INSTRUMENT *(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 of the Company and of the Group is calculated as follows:

	Group and Company HK$'000
Proceeds of the Loan	100,000
Derivative financial instrument	(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
Interest expense (Note 7)	7,237
Liability component at 31 December 2011 (Note 29)	102,191

Interest expense on the Loan is calculated using the effective interest method by applying an effective interest rate of 1.93% (2010: 12.81%) to the liability component.

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30. CONVERTIBLE LOAN AND DERIVATIVE FINANCIAL INSTRUMENT *(continued)*

The Binominal Option Pricing Model is employed in deriving the fair value of the derivative financial instrument. 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 derivative financial instrument. Valuation of the derivative financial instrument is determined based on the following assumptions:

(a) the Subscription to be completed on the expected completion date of 30 June 2012 (2010: 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's shares represents the daily volatility from Bloomberg, with reference to several comparable companies devoted to electronic components and products.

The movements in derivative financial instrument recognised in the statements of financial position of the Company and of the Group are as follows:

	Group and Company HK$'000
Fair value on initial recognition	6,081
Change in fair value charged to profit or loss (Note 6)	(1,390)
Fair value at 31 December 2010 and 1 January 2011	4,691
Change in fair value credited to profit or loss (Note 6)	170
Fair value at 31 December 2011	4,861

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 of the Group amounting to approximately HK$19,574,000 (2010: HK$69,929,000) and HK$191,958,000 (2010: HK$233,526,000), respectively, are pledged to New Prime by way of a fixed and floating charge for the Loan.

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 2010	4,111
Credited to profit or loss	(511)
Charged to other comprehensive income (Note 15)	2,494
Exchange realignments	99
At 31 December 2010 and 1 January 2011	6,193
Credited to profit or loss	(453)
Charged to other comprehensive income (Note 15)	458
Exchange realignments	278
Eliminated on disposal of subsidiaries	(1,830)
At 31 December 2011	4,646

The Group has accumulated tax losses arising in Hong Kong and the PRC of approximately HK$68,826,000 (2010: HK$55,408,000) and HK$101,908,000 (2010: HK$80,691,000) 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:

	2011 HK$'000	2010 HK$'000
Years:		
2012	**—**	—
2013	**21,594**	23,940
2014	**32,553**	35,839
2015	**20,513**	20,912
2016	**27,248**	—
	101,908	80,691

In addition, the Group had unrecognised deductible temporary differences of HK$148,676,000 (2010: HK$169,827,000) as at 31 December 2011 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

	2011 HK$'000	2010 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
400,000,000 ordinary shares of HK$0.1 each	**40,000**	40,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in Note 38 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.

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 2010	52,557	5,161	98,938	(205,579)	(48,923)
Share options lapsed during the year	—	(273)	—	273	—
Loss and total comprehensive income for the year	—	—	—	(76,801)	(76,801)
At 31 December 2010 and 1 January 2011	52,557	4,888	98,938	(282,107)	(125,724)
Share options lapsed during the year	—	(263)	—	263	—
Loss and total comprehensive income for the year	—	—	—	(46,754)	(46,754)
At 31 December 2011	52,557	4,625	98,938	(328,598)	(172,478)

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.

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34. DISPOSAL OF SUBSIDIARIES

As described to in Note 12, on 31 December 2011, the Group disposed of its entire equity interests in subsidiaries, Dragon Gain Group, which is engaged in the assembling of CRT colour televisions and the trading of related components. The net assets of the Dragon Gain Group at date of disposal were as follows:

	HK$'000
Property, plant and equipment	13,310
Prepaid land premium	2,348
Inventories	3,694
Trade and other receivables	3,169
Cash and cash equivalents	105
Trade and other payables	(8,476)
Deferred tax liabilities	(1,830)
Net assets of the Dragon Gain Group disposed of	12,320
Cumulative exchange gain in respect of the net assets of Dragon Gain Group reclassified from equity to profit or loss	(3,713)
Gain on disposal of Dragon Gain Group	8,393
Total consideration	17,000
Satisfied by cash:	
Consideration received	8,500
Sales proceeds receivable	8,500
	17,000
Net cash inflow arising on disposal:	
Consideration received in cash	8,500
Cash and bank balances disposed of	(105)
	8,395

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35. OPERATING LEASE ARRANGEMENTS

During the year ended 31 December 2011, the Group leased its office properties under operating lease arrangements which were negotiated for terms of one to three years. At 31 December 2011, the Group's minimum lease obligation under non-cancellable operating leases in respect of land and buildings are as follows:

	Group	
	2011 **HK$'000**	2010 HK$'000
Within one year	**1,278**	3,915
In the second to fifth years, inclusive	**754**	955
	2,032	4,870

36. CAPITAL COMMITMENTS

	Group	
	2011 **HK$'000**	2010 HK$'000
Commitments contracted but not provided for in respect of the acquisition of:		
— property, plant and equipment	**2,077**	—
— a subsidiary	**6,003**	—
	8,080	—

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37. 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) Included in prepayments, deposits and other receivables of the Group are amounts due from certain shareholders totaling HK$406,000 (2010: HK$361,000). The balances are unsecured, interest-free and have no specific terms of repayment.

(b) Included in other payables, accrued expenses and deposits of the Group at 31 December 2010 were interest payable to the controlling beneficial shareholder, Mr. Zhang, totaling HK$741,000 in respect of other loans from him as disclosed in Note 29. The balance was waived during the year and recognised as other income in Note 6 to the financial statements.

(c) The interest expenses on other loans from the controlling beneficial shareholder of HK$415,000 were charged in 2010 at a fixed rate of 2% or 9% per annum on the respective loans. In 2011, no interest expense was charged by the controlling beneficial shareholder.

(d) The accommodation expenses paid for the controlling beneficial shareholder of HK$226,000 (2010: HK$411,000) were charged to profit or loss for the year included under the administrative expenses.

The related party transactions above also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

The compensation of key management personnel is disclosed in Note 9(b) to the financial statements.

38. 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.

38. 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$5,000,000, 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 2011 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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38. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme *(continued)*

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

	2011 Weighted average exercise price HK$	2011 Number of options '000	2010 Weighted average exercise price HK$	2010 Number of options '000
At 1 January	**1.068**	**21,300**	1.068	22,700
Lapsed during the year	**1.068**	**(2,540)**	1.068	(1,400)
At 31 December	**1.068**	**18,760**	1.068	21,300

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

2011:

Number of options '000	Exercise price * HK$ per share	Exercise period
18,760	**1.068**	25 June 2004 to 24 June 2014

2010:

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

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

38. 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 2011 (2010: 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.

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39. 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:

	Group					
Financial assets	**Loans and receivables**		**Available-for-sale financial assets**		**Total**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Available-for-sale investment	**—**	—	**236**	226	**236**	226
Trade and notes receivables	**45,333**	16,329	**—**	—	**45,333**	16,329
Financial assets included in prepayments, deposits and other receivables	**40,313**	6,377	**—**	—	**40,313**	6,377
Cash and cash equivalents	**12,662**	86,250	**—**	—	**12,662**	86,250
	98,308	108,956	**236**	226	**98,544**	109,182

	Group					
Financial liabilities	**Financial liabilities at amortised cost**		**Financial liabilities held for trading**		**Total**	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Trade and bills payables	**122,135**	152,876	**—**	—	**122,135**	152,876
Other payables, accrued expenses and deposits received	**31,370**	27,082	**—**	—	**31,370**	27,082
Bank loan	**30,545**	—	**—**	—	**30,545**	—
Other loans	**143,928**	161,205	**—**	—	**143,928**	161,205
Derivative financial instrument	**—**	—	**4,861**	4,691	**4,861**	4,691
	327,978	341,163	**4,861**	4,691	**332,839**	345,854

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39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial assets	Company Loans and receivables	
	2011 **HK$'000**	2010 HK$'000
Deposits and other receivables	**10,124**	181
Amount due from a subsidiary	**15**	6,031
Cash and cash equivalents	**9,435**	63,717
	19,574	69,929

Financial liabilities	Company Financial liabilities at amortised cost		Financial liabilities held for trading		Total	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Other payables, accrued expenses and deposits received	**6,238**	5,058	**—**	—	**6,238**	5,058
Other loans	**140,263**	145,904	**—**	—	**140,263**	145,904
Derivative Financial instrument	**—**	—	**4,861**	4,691	**4,861**	4,691
	146,501	150,962	**4,861**	4,691	**151,362**	155,653

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 2011 and 2010.

The fair value of derivative financial instrument of the Group and of the Company is measured using a Binominal 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 date (unobservable inputs). During the year, a loss on fair value change of the derivative financial instrument of HK$170,000 is recognised in profit or loss.

Notes to the Financial Statements

31 December 2011

40. 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 2011, 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 derivative financial instrument.

(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.

The Group's cash flow interest rate risk relates primarily to its variable-rate bank deposits and borrowings at floating interest rate. The Group does not expose to significant cash flow interest rate risk. At 31 December 2010, the Group had only a one month short-term borrowings of HK$5,800,000 which bears floating interest rate with a maturity date on 6 January 2011. At 31 December 2011, the Group did not have any borrowing bearing floating interest rate.

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
2011					
Hong Kong dollar	**100**	**(127)**	**(127)**	**100**	**(94)**
2010					
Hong Kong dollar	100	(804)	(804)	100	(637)

(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.

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

(b) Foreign currency risk *(continued)*

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
2011			
If RMB appreciate against US$	**4**	**(196)**	**(196)**
2010			
If RMB appreciate against US$	4	(22)	(22)

(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 director's approval. 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 had a certain concentration of credit risk as 77% (2010: 70%) of the total trade receivables was due from the Group's five largest customers. Details of the credit quality of the trade receivables that are neither past due nor impaired were set out in Note 24.

Cash and cash equivalents are deposits at banks with sound credit ratings. Given their high credit ratings, the Group does not expect to have any associated credit risk.

(d) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows. and by matching the maturity profiles of financial asset and liabilities. At 31 December 2011, the Group was in net current liabilities and net liabilities of HK$219,541,000 and HK$147,209,000, respectively, the Directors are taking active measures to improve the working capital of the Group as detailed in Note 2.1 to the consolidated financial statements.

Notes to the Financial Statements

31 December 2011

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

(d) Liquidity risk *(continued)*

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:

2011	**On demand HK$'000**	**Less than 3 months HK$'000**	**3 to 12 months HK$'000**	**Total HK$'000**
Trade and bills payables	**105,945**	**16,190**	**—**	**122,135**
Other payables, accrued expenses and deposits received	**30,015**	**—**	**1,355**	**31,370**
Bank loan	**—**	**—**	**31,529**	**31,529**
Other loans	**—**	**—**	**147,850**	**147,850**
	135,960	**16,190**	**180,734**	**332,884**

2010	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months 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

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:

2011	**On demand HK$'000**	**Less than 3 months HK$'000**	**3 to 12 months HK$'000**	**Total HK$'000**
Other loans	**—**	**—**	**144,166**	**144,166**
Other payables and accrued expenses	**5,664**	**—**	**574**	**6,238**
	5,664	**—**	**144,740**	**150,404**

Notes to the Financial Statements

31 December 2011

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

(d) Liquidity risk *(continued)*

2010	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months 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

(e) Capital risk management

The Directors are taking active measures to improve the working capital of the Group so as to continue as a going concern and the details are disclosed in Note 2.1 to the consolidated financial statements.

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 2011 and 31 December 2010.

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	
	2011 HK$'000	2010 HK$'000
Bank loan	**30,545**	—
Other loans	**143,928**	161,205
Trade and bills payables	**122,135**	152,876
Other payables, accrued expenses and deposits received	**31,370**	27,082
Derivative financial instrument	**4,861**	4,691
Less: Cash and cash equivalents	**(12,662)**	(86,250)
Net debts	**320,177**	259,604
Equity attributable to owners of the Company	**(147,956)**	(120,243)
Capital and net debts	**172,221**	139,361
Gearing ratio	**186%**	186%

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2012.

Five Year Financial Summary

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

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
Turnover	**316,184**	92,555	146,155	494,784	974,493
Loss before income tax	**(32,272)**	(49,589)	(89,726)	(100,901)	(100,050)
Income tax credit/(expense)	**324**	398	(393)	(3,130)	(13,367)
Loss for the year from continuing operations	**(31,948)**	(49,191)	(90,119)	(104,031)	(113,417)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**4,687**	(1,187)	1,912	(9,234)	(1,947)
Loss for the year	**(27,261)**	(50,378)	(88,207)	(113,265)	(115,364)
Loss attributable to:					
Owners of the Company	**(27,175)**	(49,749)	(88,564)	(112,483)	(115,094)
Non-controlling interests	**(86)**	(629)	357	(782)	(270)
	(27,261)	(50,378)	(88,207)	(113,265)	(115,364)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**191,958**	233,526	164,598	390,545	741,918
Total liabilities	**(339,167)**	(352,995)	(234,726)	(385,396)	(640,416)
Non-controlling interests	**(747)**	(774)	(1,377)	(1,016)	(1,719)
	(147,956)	(120,243)	(71,505)	4,133	99,783