


# CHAOYUE GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00147)

ANNUAL REPORT 2010

The background of the page is a warm, golden-yellow color with a subtle, fine-grained texture. On the left side, a large, clear water droplet is shown, with several smaller droplets trailing upwards from it, creating a sense of movement. In the bottom right corner, there is a pile of irregular, golden-brown nuggets, resembling gold or mineral ore, which adds a tactile and thematic element to the design.

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Yuen Leong  
Luan Li

### Independent Non-Executive Directors

Lam Man Kit, Dominic  
Yap Yung  
Zhang Guang Sheng

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Chung Yau Tong

## AUDITOR

Deloitte Touche Tohmatsu

## AUDIT COMMITTEE

Yap Yung (*Chairman*)  
Lam Man Kit, Dominic  
Zhang Guang Sheng

## REMUNERATION COMMITTEE

Lam Man Kit, Dominic (*Chairman*)  
Yap Yung  
Zhang Guang Sheng

## NOMINATION COMMITTEE

Zhang Guang Sheng (*Chairman*)  
Lam Man Kit, Dominic  
Yap Yung

## REGISTERED OFFICE

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2302, 23rd Floor  
China Insurance Group Building  
141 Des Voeux Road Central  
Hong Kong

## PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM 08  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong

## STOCK CODE

00147

## COMPANY WEBSITE

[www.chaoyuehk.com](http://www.chaoyuehk.com)

# Management's Statement

The board of directors (the "Board" or the "Directors") of Chaoyue Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2010 (the "Current Year"), together with the comparative figures for the previous year.

## OVERALL RESULTS

The Group's turnover of HK\$107,700,000 (2009: HK\$16,732,000) and gross profit of HK\$51,704,000 (2009: HK\$6,089,000) for the Current Year were generated from the direct sales of drinking water machines, sales and installation of air and water purification equipment and system. The business was acquired in February 2009. The significant increment recorded in the Current Year is mainly due to full year contribution from the business while last year it contributed 1.5 months results only. The garment business was discontinued in August 2009 and did not generate any turnover or gross profit for the Current Year.

The Group recorded a loss of HK\$7,108,385,000 in the Current Year (2009: HK\$52,537,000). Such loss was mainly due to losses arising from the changes in fair value of convertible bonds and warrants of HK\$7,051,714,000 (2009: gain of HK\$2,566,000) upon they were exercised during the Current Year and impairment losses on patents for the core technology of direct drinking water purification machine of HK\$45,694,000 (2009: Nil). The fair value losses was mainly due to the increase in market price of the Company's shares during the Current Year and such losses was reflected in the financial statements according to the relevant accounting standards.

The captioned fair value changes and impairment losses were non-cash accounting losses and had no impact on the operating cash flows of the Group. The earnings before interest, taxation, depreciation and amortization of the Group, excluding the captioned non-cash items, for the Current Year was HK\$21,666,000 (2009: loss of HK\$38,565,000). The improvement from last year was mainly due to full year contribution from direct sales of drinking water machines and sales and installation of air and water purification equipment and system, partially off-set by loss from discontinued garment business. The fair value losses on convertible bonds and warrants were non-recurring as all outstanding convertible bonds and warrants had been exercised during the Current Year.

Notwithstanding loss of HK\$7,108,385,000 recorded in the Current Year, the net asset value of the Group increased from HK\$72,468,000 (restated) as at 31 March 2009 to HK\$342,899,000 as at 31 March 2010. The effect of the fair value losses of convertible bonds and warrants were offset by the share premium arising from issuance of shares upon exercise of convertible bonds and warrants.

## FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 March 2010 (2009: Nil).

## REVIEW OF OPERATIONS

### Continuing operations

#### *Direct drinking water machines*

The direct drinking water machines business has significant contribution to the Group in both the turnover and the operating result in the Current Year. The turnover generated from direct drinking water machines business for the Current Year was HK\$67,981,000 (2009: HK\$6,739,000) and the segment recorded a loss of HK\$33,250,000 (2009: HK\$5,243,000). Such loss in Current Year included the amortization and impairment loss on the patents amounted to HK\$64,494,000 (2009: HK\$2,506,000). Having excluded these two non-cash items, the operating profit of this segment was HK\$31,244,000 (2009: operating loss of HK\$2,737,000).



# Management's Statement

During the Current Year, Shanghai Comfort Environment and Science Co., Ltd ("SH Comfort") enhanced its business model by engaging agents in major provinces in China to sell and manage the direct drinking water machines in the brand name of "OZONE COMFORT". SH Comfort now sells the direct drinking water machines to the agents and received yearly royalty fees plus variable royalty fees based on the number of machines sold from the agents. For those direct drinking machines which had been leased to the end users in the previous years, the right of management was leased to the agents to operate on behalf of SH Comfort and those machines will be sold to the agents gradually. Under the new business model, SH Comfort deals with agents instead of end users directly which can save lot of administrative effort. Consequently, SH Comfort can spend more resources to improve the core technology and to develop new models. In Current Year, nine agents were appointed to cover regions in Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Chengdu, Shijiazhuang, Xian, Shenyang and Hong Kong.

The number of direct drinking water machine installed during the Current Year was approximately 28,000 units. The business expansion lagged behind original expectation because resources were spent on formulating the new business model and the future strategy. As a result, the fair value of patents in relation to the core technology of direct drinking water purification machine were impaired to HK\$27,000,000 as at 31 March 2010.

## ***Air and water purification equipment and system***

The products of and technology used by SH Comfort have received wide recognition from organizations such as food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. The revenue resulted from the sales and installation of the purification equipment and system for the Current Year was HK\$39,719,000 (2009: HK\$9,993,000) and the segment recorded a profit of HK\$758,000 (2009: HK\$402,000). The profit contribution of this segment for the Current Year was slim as most of the customers of SH Comfort slowed down their development and expansion plan as a result of the uncertainties of the economy.

## ***Mining***

The Group has acquired a gold mine at Kyrgyzstan in the Current Year. The estimated mineral resources are approximately 97 tones of gold and approximately 1 million tones of copper. The exploration license and mining license had been issued by the relevant authorities of Kyrgyzstan's Government but mining work had yet to commence and no turnover was recorded. This segment incurred a loss of HK\$4,090,000 in the Current Year which mainly represented the amortization of the mining right.

## **Discontinued operation**

### ***Garment business***

The Group had encountered challenges in getting orders from customers for its garment business which had ceased to generate meaningful return to the Group as a result of the economic downturn since the second half of year 2008. It was decided to discontinue the garment business in August 2009. There was no turnover or gross profit generated from garment business during the Current Year, and it recorded a loss of HK\$87,000 in the Current Year.



# Management's Statement

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

### Acquisition of a gold mine

On 29 November 2009, the Group entered into an agreement to acquire 90% of the issued share of Eagle Mountain Holdings Limited ("Eagle Mountain"), which is the 100% beneficial owner of a company which hold the mining right of a gold mine in Kyrgyzstan, at a consideration of USD20,000,000 (approximately HK\$156,000,000), of which US\$12,000,000 (approximately HK\$93,600,000) shall be satisfied by allotment and issue of shares of the Company at an issue price of HK\$1.28 per share, and of which US\$8,000,000 shall be satisfied by the payment of cash. The Group successfully completed the acquisition of the 90% of the issued share capital of Eagle Mountain on 20 November 2009 and 73,125,000 consideration shares of the Company with the nominal value of HK\$0.001 each was allotted and issued, and US\$8,000,000 cash was paid according to the agreement.

### Acquisition of a platinum mine

On 15 September 2009, the Group entered into an agreement to acquire 51% to 60% attributable interest in Blue Ridge Platinum (Proprietary) Limited who is the sole legal and beneficial owner of a PGE (4E) mine at the Republic of South Africa. Since the condition precedents to complete the acquisition cannot be satisfied, a deed of termination and release was entered with the vendor on 30 April 2010 to terminate the Acquisition agreement and to release each other from their respective rights and obligations under the terms of the deed.

### Disposal

There was no material disposal of subsidiaries during the Current Year.

## CONSIDERATION TO ACQUIRE PARK WEALTH INTERNATIONAL LIMITED

Pursuant to the sale and purchase agreement dated 11 October 2008 and the supplemental agreement dated 28 November 2008 to acquire Park Wealth International Limited ("Park Wealth"), which is the holding company of SH Comfort, the consideration for the acquisition should be adjusted and fixed in accordance with the formula set out in the aforesaid agreements with reference to the audited net profit after tax of the Park Wealth and its subsidiaries for the year ended 31 December 2009 (the "Audited Profit"). Based on the Audited Profit that was announced on 16 July 2010, the consideration of the acquisition and the aggregate face value of the Non-voting Convertible Preference Shares shall be adjusted downward to HK\$85,854,864 which was satisfied by the issuance of an aggregate of 214,637,160 shares of Non-voting Convertible Preference Shares by the Company. Consequently, the consideration of acquisition was revised and adjusted retrospectively to the consolidated financial statements of the Group.

## FINANCIAL REVIEW

### Liquidity

The Group recorded net current asset of HK\$55,280,000 as at 31 March 2010 (net current liabilities as at 31 March 2009: HK\$133,957,000). The change from net current liabilities to net current assets at 31 March 2010 were mainly due to all outstanding convertible bonds which was recognised as current liabilities in last year, had been converted to ordinary shares during the Current Year. As a result of the conversion, the current ratio of the Group as at 31 March 2010 was improved to 1.60 (2009: 0.58).

### Gearing ratio

The total borrowings as at 31 March 2010 amounted to approximately HK\$32,563,000, which comprised a 12% per annum interest bearing borrowings of HK\$9,099,000 and an interest free amount due to a director of a subsidiary of HK\$23,464,000. The gearing ratio of the Group, which was expressed as a percentage of total borrowings to shareholders' equity, as at 31 March 2010 was 9.50%.

# Management's Statement

## Financial resources

The Group finances its operations mainly by internally generated funds, other loans, and funding from conversion of convertible bonds and exercise of warrants. The management believes that the Group will generate sufficient operating cash flow from internal operations.

## Capital structure

During the Current Year, all convertible bonds had been converted to ordinary shares and all warrants issued as a result of the conversion of the convertible bonds had been exercised. As at 31 March 2010, the Group recorded a shareholders' equity of HK\$342,899,000.

Share subdivision of all issued and unissued shares into 10 subdivided shares was approved by the shareholders on 31 July 2009. After the conversion of convertible bonds into ordinary shares, issue of shares from exercise of share options, conversion of warrant liabilities into ordinary shares and issue of shares for acquisition of a gold mine during the Current Year, the issued shares as at 31 March 2010 increased to 18,824,435,160 shares at HK\$0.001 each.

## Charges on assets

As at 31 March 2010, the Group had no charge on assets (2009: Nil).

## Contingent liabilities

As at 31 March 2010, the Group had no contingent liabilities (2009: Nil).

## Foreign exchange exposure

As part of the Group's assets and liabilities are denominated in Renminbi, US dollars and Hong Kong dollars, in order to minimize the foreign exchange risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

## EMPLOYMENT AND REMUNERATION POLICY

The Group had approximately 11, 12 and 399 employees in Hong Kong, Kyrgyzstan and the PRC respectively as at 31 March 2010. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has adopted a discretionary share option scheme which is designed to award employees for their performance. As at 31 March 2010, there were 66,000,000 share options granted to the directors and employees of the Group.

## FUTURE PLAN AND PROSPECTS

In the Current Year, the Group focused on development of the direct drinking water machines business by formulating the new business model to appoint agents in different provinces/regions in the PRC. The management considers that the new business model is a more efficient because the Group does not need to manage large number of end users and have a guarantee inflow of royalty income from the agents.

The management also continues our mission to diversify the business scope and expanding the income source of the Group by seeking for new business opportunities in Current Year.

# Management's Statement

In view of the increase in demand of natural resources and the increase in the prices of precious metals over the past years, the Directors had reviewed various projects related to natural resources in Current Year and has acquired a gold mine with estimated reserve of 97 tones of gold. While there was an outbreak of the political revolution in Kyrgyzstan recently, it does not affect our mining rights. Given the continuous rising trend of gold price, management believes the mine can bring good return to the shareholders in the future.

In the Current Year, all convertible bonds issued by the company had been converted to ordinary shares and all warrants issued as a result of conversion of the convertible bonds had been fully exercised by all warrant holders. This showed that the substantial shareholder and other bondholders have great confidence in the future development of the Company.

The management are dedicated to operate the existing businesses and continue to secure high growth potential projects for the Group. We are committed to utilize the resources to maximize the profitability of the Group and generate satisfactory return to the shareholders.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

By Order of the Board  
**Chaoyue Group Limited**

**Yuen Leong**  
*Director*

Hong Kong, 16 July 2010



# Biographical Details of Directors

## YUEN LEONG

### Executive Director

Mr. Yuen Leong, aged 52, was appointed as an Executive Director of the Company on 1 January 2008. Mr. Yuen holds a master degree in mechanical engineering from the Shanghai Jiao Tong University and was a senior research analyst of 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1991. Mr. Yuen is a director of Origin Seed Technology Inc., a company listed on Nasdaq. Mr. Yuen has over ten years of experience in corporate management and operation.

## LUAN LI

### Executive Director

Ms. Luan Li, aged 41, was appointed as an Executive Director of the Company on 20 August 2009. Ms. Luan graduated from the former 北京實驗大學 (Beijing Experimental University\*) in 1990 majored in English for Foreign Enterprises. She has also obtained an Executive Master of Business Administration from the Queen's University of Brighton in 2003. Ms. Luan has over 20 years of experience in mineral resources trading, real estate development and investment in the agricultural industry. From 1991 to 1992, Ms. Luan was the manager of Guangzhou Branch of Leunson Trans Tech Corp. (USA) which was principally engaged in the business of mineral resources and equipment export trading. From 1992 onwards, Ms. Luan was appointed as a member of senior management team of several multinational companies in Hong Kong and Mainland China which were principally engaged in real estate investment and development business and investment in the agricultural industry.

## LAM MAN KIT, DOMINIC

### Independent Non-Executive Director

Dr. Lam Man Kit, aged 62, was appointed as an Independent Non-Executive Director of the Company on 1 January 2008. Dr. Lam is the Chairman of the World Eye Organization. Dr. Lam obtained a doctorate degree in Medical Biophysics in 1970. He was appointed as Assistant Professor at Harvard Medical School and subsequently Professor of Biotechnology and Ophthalmology at Baylor College of Medicine. In 1988, Dr. Lam was invited to be the Founding Director of the Hong Kong Institute of Biotechnology. In 1990, Dr. Lam was appointed a member of the US President's Committee on the Arts and Humanities and awarded the KPMG Peat Marwick's High Tech Entrepreneur of the Year. Since January 2003, Dr. Lam was an independent non-executive director of New World TMT Limited, a company previously listed on the main board of the Stock Exchange and was privatized in March 2006.

## YAP YUNG

### Independent Non-Executive Director

Mr. Yap Yung, aged 36, was appointed as an Independent Non-Executive Director of the Company on 20 August 2009. Mr. Yap graduated from the University of Hong Kong in 1995 with a Bachelor's degree in mechanical engineering. He became a member of the Hong Kong Institute of Certified Public Accountants since 1999. He has also completed an advanced management course held by the London Business School and the University of Cambridge in 2003. Mr. Yap has over 10 years of corporate finance and audit experience gained from his previous employment. Mr. Yap was employed by PricewaterhouseCoopers as an audit manager from 1995 to 2002. Mr. Yap is currently the chief financial officer of China Lifestyle F&B Group Ltd., a company previously listed on the Singapore Exchange Ltd. and was privatized in May 2010.

## ZHANG GUANG SHENG

### Independent Non-Executive Director

Mr. Zhang Guang Sheng, aged 60, was appointed as an Independent Non-Executive Director of the Company on 20 August 2009. Mr. Zhang graduated from 山東礦業學院 (Shangdong Mining Institute\*) in 1975 majored in coal mining. Since graduation, he taught in 福建省煤炭工業學校 (Fujian Provincial Institute of Coal and Charcoal Industry\*) till 1980. Since 1980, Mr. Zhang has served various posts with the PRC government. From 1985 to 1998, Mr. Zhang worked in 福建省人民政府辦公廳 (Fujian Provincial Government\*). During 1998 to 2000, Mr. Zhang was the managing director and vice general manager of 福建中旅集團 (Fujian CTS Group\*). Since 2003, Mr. Zhang is the assistant managing officer of 福建省口岸海防辦 (the Office of the Port Opening and Coastal Defense of Fujian Province\*).

\* the English translation of the name is for identification purpose only.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is committed to promote good corporate governance to safeguard the interests of shareholders. The Company set out its corporate governance practices by reference to the Code Provision on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company has complied with the CG Code throughout the financial year ended 31 March 2010 except for code provision A.2.1, which required that the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual. Details for the deviation with explanation are disclosed below.

## BOARD OF DIRECTORS

### The Board

The Board is responsible for formulating the goal and strategies, monitoring the business performance and approving investment proposals of the Group. The daily operations of the Group are delegated to the management of the Group. Prior to entering into any significant transactions, Board approval should be obtained.

The Board currently comprises five members. Two Executive Directors, namely: Mr. Yuen Leong and Ms. Luan Li; and three Independent Non-Executive Directors, namely: Dr. Lam Man Kit Dominic, Mr. Yap Yung and Mr. Zhang Guang Sheng.

The biographical details of the Board members are set out on page 8 of this Annual Report.

The Board meets regularly and additional meetings are convened as and when required to discuss the day-to-day operations and other affairs with the management. The Board met 17 times during the year ended 31 March 2010 and the attendance record is set out below:

<b>Executive Directors</b>		<b>Attendance/ Number of Meetings</b>
Mr. Yuen Leong		17/17 (4/4)*
Ms. Luan Li	(appointed on 20 August 2009)	10/10 (2/2)*
<b>Independent Non-Executive Directors</b>		
Dr. Lam Man Kit Dominic		17/17 (4/4)*
Mr. Yap Yung	(appointed on 20 August 2009)	10/10 (2/2)*
Mr. Zhang Guang Sheng	(appointed on 20 August 2009)	10/10 (2/2)*
Mr. Chan Wai Dune	(retired on 31 July 2009)	5/5 (2/2)*
Ms. Chen Ye	(resigned on 20 August 2009)	7/7 (2/2)*

\* Regular Board meetings

During the year, not less than 14 days notice is given of a regular board meeting. Directors are welcomed to include matters to be discussed in the agenda before the meetings. The Directors have to declare their interests in the subject matters to be considered in the relevant meeting and the director, who or whose associates have any interest in any proposed resolution, must abstain from voting and will not be counted in quorum.

# Corporate Governance Report

Minutes of each Board meeting will be drafted by the Company Secretary to record the matters discussed and decision resolved at Board meetings and will be circulated to the Board for comment within a reasonable time after each meeting. The final Board minutes are kept by the Company Secretary and available for inspection by Directors.

Directors can, upon reasonable request, seek independent professional advice in appropriate circumstances, at the expenses of the Company. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

## **Chairman and Chief Executive Officer**

Under code provision A.2.1 of the CG Code, the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Yuen Leong currently serves the role of chairman of the Board and the chief executive officer of the Company. Since the role of chief executive officer/general manager of the Company's major operating subsidiaries are performed by other persons and they are directly accountable to the Board, the Board believes that the existing arrangement is adequate.

Depending on the future development of the business of the Company, eventually the Board will actively consider the issue of nominating appropriate candidates to take up the title of Chairman and Chief Executive Officer.

Mr. Yuen, who took the chair of most Board meetings, will ensure that all Directors are properly briefed on issues arising at the Board meetings and they receive adequate information and materials in a timely manner.

## **Board composition**

All Directors, including the Independent Non-Executive Directors, are expressly identified in all corporate communications where directors have been mentioned.

After the retirement of Mr. Chan Wai Dune on 31 July 2009, the number of Independent Non-executive Directors and Audit Committee members of the Company has fallen below the minimum number as required by the Rules 3.10 and 3.21 of the Listing Rules. On 20 August 2009, the Company has appointed Mr. Yap Yung as an Independent Non-executive Director and the Chairman of Audit Committee, so there is sufficient number of Independent Non-executive Director and Audit Committee member to meet the requirement of the aforesaid Listing Rules. Except for the period from 31 July 2009 to 19 August 2009, the number of Independent Non-Executive Directors in the Board is kept at three which represents more than one-third of the Board in order to maintain a strong independent element on the Board, which can exercise independent judgment and ensure balance of power and authority.

The Company received, from each of the existing Independent Non-Executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company is satisfied with the independence of the Independent Non-Executive Directors.

## **Appointments, re-election and removal**

In selecting and approving candidate for directorship, the Board will consider various criteria such as education, qualification, experience, integrity and the potential contribution to the Group. A newly appointed Director must be able to meet the standards as set out in Rules 3.08 and 3.09 of the Listing Rules. For Independent Non-Executive Directors, the candidates should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

# Corporate Governance Report

Directors appointed to fill a causal vacancy are subject to election by shareholders at the next annual general meeting after their appointment and every Director is subject to retirement by rotation at least once every three years. Ms. Luan Li, Mr. Yap Yung and Mr. Zhang Guang Sheng were newly appointed on 20 August 2009 and they are subject to election at the coming annual general meeting.

All Independent Non-Executive Directors have entered into service contracts with definite terms of services for three years.

## **Responsibilities of directors**

Every newly appointed Director of the Company will receive a comprehensive, formal induction to ensure each of them has proper understanding of the structure, operation and business of the Group and aware of the responsibilities as a director under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Group. All Directors understand that they should give sufficient time and attention to the affairs of the Company.

The Company has 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. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions, except for our Executive Director, Mr. Yuen Leong, who has declared that he has fully complied with the provisions of the Model Code as set out in Appendix 10 of the Listing Rules apart from Rule A.3 of the Model Code as a result of Long Grand Limited, 30% of which is owned by him, converted HK\$60,000,000 convertible bond and took up of the warrants attached to the convertible bond on 14 May 2009, which was falls within the blackout period for the announcement of the annual result for the year ended 31 March 2009. The conversion of convertible bond and taking up of warrants were mandatory as a result of the conversion of other bond holders. A waiver from strict compliance with Rule A.3 of the Model Code was granted by The Stock Exchange of Hong Kong Limited on 13 May 2009.

## **Supply of and access of information**

The Board and its committees will be supplied with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. All Directors have separate and independent access to senior management and entitled to have access to board papers and related materials. During the year, the agenda and accompanying relevant materials are sent in full to all Directors at least 3 days before date of the regular board meeting.

# Corporate Governance Report

## BOARD COMMITTEES

The Board is supported by three committees with defined role and responsibilities for each committee. They are Remuneration Committee, Nomination Committee and Audit Committee. All committees were set up with a written terms of reference to deal clearly with its authority and duties. The committees will report their finding and decision and make necessary recommendations to the Board. Minutes of the committee meetings will be drafted by the Company Secretary and circulated for the comment of the members of the committee within a reasonable time. The final version of the committee minutes will be kept by the Company Secretary and such minutes are open for inspection by any Director.

### (a) Remuneration Committee

The Remuneration Committee was established in May 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. It is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of Directors. It also provides effective supervision and administration of the Company's share option schemes.

The Company's objectives for its remuneration policy are to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to Directors and senior management, market rates, director's workload and responsibilities and general economic situation would be taken into consideration.

The existing Remuneration Committee comprises three Independent Non-Executive Directors, namely Dr. Lam Man Kit, Dominic (Chairman of the Remuneration Committee), Mr. Yap Yung and Mr. Zhang Guang Sheng.

The Remuneration Committee has held one meeting during the year ended 31 March 2010 to review the remuneration packages of the Executive Directors of the Company and make recommendation to the Board. Individual attendance of each member of Remuneration Committee is set out below:

<b><u>Name of Remuneration Committee Members</u></b>	<b><u>Attendance/ Number of Meetings</u></b>
Dr. Lam Man Kit Dominic ( <i>Chairman</i> )	1/1
Mr. Yap Yung (appointed on 20 August 2009)	0/0*
Mr. Zhang Guang Sheng (appointed on 20 August 2009)	0/0*
Ms. Chen Ye (resigned on 20 August 2009)	1/1
Mr. Chan Wai Dune (retired on 31 July 2009)	1/1

\* No remuneration committee meeting held after their appointment



# Corporate Governance Report

## (b) Nomination Committee

The Nomination Committee was established in May 2005 with terms of reference substantially the same as those contained in paragraph A.4.5 of the CG Code. It is responsible for reviewing the structure, size and composition of the Board and make recommendations to the Board regarding any proposed changes. The committee's authorities and duties are set out in written terms of reference and are available on request.

The Committee's objectives are to ensure formal, fair and transparent procedures for the new appointment and re-appointment of directors to the Board.

The existing Nomination Committee comprises three Independent Non-Executive Directors, namely Mr. Zhang Guang Sheng (Chairman of Nomination Committee), Dr. Lam Man Kit, Dominic and Mr. Yap Yung.

The Nomination Committee has held two meetings in the year ended 31 March 2010 to review the experience, qualification, professional knowledge, personal ethnics and integrity of the candidate of the nominees to be appointed as director of the Company, to review the structure, size and composition of the Board and to consider the independence of all the Independent Non-Executive Directors. Individual attendance of each member of Nomination Committee is set out below:

<b>Name of Nomination Committee Members</b>	<b>Attendance/ Number of Meetings</b>
Mr. Zhang Guang Sheng ( <i>Chairman</i> ) (appointed on 20 August 2009)	0/0*
Dr. Lam Man Kit Dominic	2/2
Mr. Yap Yung (appointed on 20 August 2009)	0/0*
Ms. Chen Ye (resigned on 20 August 2009)	2/2
Mr. Chan Wai Dune (retired on 31 July 2009)	1/1

\* No nomination committee meeting held after their appointment

## (c) Audit Committee

The Company established the Audit Committee in December 1999 and has adopted a written terms of reference substantially the same as those contained in paragraph C.3.3 of the CG Code and the terms of reference are aligned with the latest updates of the CG Code.

The principal duties of the Audit Committee include, among other things, oversight of the relationship with external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures.

The existing Audit Committee comprises of three Independent Non-executive Directors, namely Mr. Yap Yung (Chairman of Audit Committee), Dr. Lam Man Kit Dominic and Mr. Zhang Guang Sheng, and none of whom is a former partner of the Company's existing auditing firm. Mr. Yap Yung, has the appropriate professional qualification, accounting or related financial management expertise.

# Corporate Governance Report

The Audit Committee held four meetings in the year ended 31 March 2010 for considering re-appointment of auditors, reviewing the annual results of the Group for the year ended 31 March 2009 and the interim results of the Group for the six months ended 30 September 2009 and discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and reviewing the internal control system of the Group. Individual attendance of each member of Audit Committee is set out below:

<b>Name of Audit Committee Members</b>	<b>Attendance/ Number of Meetings</b>
Mr. Yap Yung ( <i>Chairman</i> ) (appointed on 20 August 2009)	2/2
Dr. Lam Man Kit Dominic	4/4
Mr. Zhang Guang Sheng (appointed on 20 August 2009)	2/2
Ms. Chen Ye (resigned on 20 August 2009)	2/2
Mr. Chan Wai Dune (retired on 31 July 2009)	2/2

## ACCOUNTABILITY AND AUDIT

### Financial reporting

Management provides explanation and relevant materials to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement of the Auditors of the Company about their responsibilities on the financial statement of the Group is set out in the Independent Auditor's Report on pages 23 and 24.

The Board is responsible for presenting a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosure required under regulatory requirements in a timely manner.

### Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Company has engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group including recommendations to enhance the overall internal control system for the year ended 31 March 2010. The internal control review report has been approved by Audit Committee and the Board. Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls system.

# Corporate Governance Report

## Auditor's remuneration

For the year ended 31 March 2010, the Group's external auditors provided the following services to the Group:

	<i>HK\$'000</i>
Statutory audit and interim review	2,154
Service in relation to audit of 2009 result of Park Wealth Group	1,100
Taxation	100
	<hr/> 3,354

## SHAREHOLDERS RELATIONS

The Company has established various communications channels to facilitate communication with shareholders including sending of interim and annual reports, circulars for special transactions and posting of announcements on the websites of the Stock Exchange and the Company. Registered shareholders are notified by post of the shareholders' meeting. The shareholders' meetings of the Company provide a useful forum for shareholders to raise comments and exchange views with the Board. The Board welcomes the views of shareholders on matters affecting the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management directly.

To ensure the shareholders know their right for demanding a poll, the procedures for demanding and conducting a poll is disclosed in all Company's circulars to shareholders accompanying the notice of general meetings and these procedures will be explained by the chairman of each general meeting at the commencement of the meeting.

On behalf of the Board  
**Chaoyue Group Limited**

**Yuen Leong**  
*Director*

Hong Kong, 16 July 2010



# Directors' Report

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Company for the year ended 31 March 2010.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 40 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2010 are set out in the consolidated statement of comprehensive income on page 25.

The Directors do not recommend the payment of dividend for the year ended 31 March 2010.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

## BORROWINGS

Particular of borrowings of the Group as at 31 March 2010 is set out in note 24 and 25 to the financial statements.

## SHARE CAPITAL

Pursuant to a special resolution passed on 31 July 2009, the Company subdivided each of the issued and unissued ordinary shares and non-voting convertible preference shares into 10 subdivided ordinary shares and 10 subdivided non-voting convertible preference shares of HK\$0.001 each respectively.

Details of the share capital of the Company are set out in note 31 and 32 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group during the year are set out on page 28 of the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution to shareholders as at 31 March 2010.

## FIVE YEARS SUMMARY

A summary of the results and other assets and liabilities of the Group for the last five financial years is set out on page 92 of this Annual Report.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive Directors:

Yuen Leong  
Luan Li (appointed on 20 August 2009)

### Independent Non-Executive Directors:

Lam Man Kit, Dominic  
Yap Yung (appointed on 20 August 2009)  
Zhang Guang Sheng (appointed on 20 August 2009)  
Chen Ye (resigned on 20 August 2009)  
Chan Wai Dune (retired on 31 July 2009)

Pursuant to the Bye-law 86(2) of the Bye-law of the Company's, any directors of the Company appointed by the board either to fill casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Thus Ms. Luan Li, Mr. Yap Yung and Mr. Zhang Guang Sheng who were appointed as directors of the Company pursuant to Bye-Law 86(2) shall retire at the forthcoming annual general meeting of the Company. Each of Ms. Luan Li, Mr. Yap Yung and Mr. Zhang Guang Sheng, being eligible, have offered themselves for re-election as directors of the Company.

Biographical details of Directors are set out on page 8 of this Annual Report.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-Executive Directors, and annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considered all of the Independent Non-Executive Directors are independent.

## DIRECTOR'S SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



# Directors' Report

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2010, the interests and short positions of the directors and the chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (i) Long position in shares and underlying shares of the Company

#### *Ordinary shares of HK\$0.001 each of the Company*

<b>Name of Director</b>	<b>Capacity in which interests are held</b>	<b>Options to subscribe for Shares of the Company</b>	<b>Number of Shares interested</b>	<b>Interests as to % to the issued share capital of the Company</b>
Yuen Leong	Interest of a controlled corporation	–	12,887,473,880 <i>(Note 1)</i>	68.46%
	Beneficial owner	9,000,000 <i>(Note 2)</i>	–	0.05%
Lam Man Kit, Dominic	Beneficial owner	9,000,000 <i>(Note 2)</i>	–	0.05%

#### *Notes:*

- (1) These 12,887,473,880 shares are held by Long Grand Limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 12,887,473,880 shares held by Long Grand Limited for the purposes of the SFO.
- (2) Pursuant to the share option scheme adopted by a resolution of the Shareholders on 17 September 2004, these share options were granted on 17 July 2008 and are exercisable at HK\$0.532 per Share (adjusted after share subdivision on 3 August 2009) from 17 July 2008 to 16 September 2014.

## Directors' Report

(ii) Long position in shares and underlying shares of the associated corporation

Name of Director	Name of associated corporation	Interest held by controlled corporation	Personal interest	Family interest	Number of ordinary shares (long positions)	
					Total number of shares held in associated corporation	Approximate percentage of issued share capital of associated corporation
Yuen Leong	Long Grand Limited	–	Beneficial owner	–	300	30%

Save as disclosed above, as at 31 March 2010, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

# Directors' Report

## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 37 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

	Exercise period	Outstanding at 1 April 2009	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 March 2010
<i>Directors:</i>						
Yuen Leong	17.7.2008 to 16.9.2014	3,000,000	–	–	–	3,000,000
	17.7.2009 to 16.9.2014	3,000,000	–	–	–	3,000,000
	17.7.2010 to 16.9.2014	3,000,000	–	–	–	3,000,000
Lam Man Kit, Dominic	17.7.2008 to 16.9.2014	3,000,000	–	–	–	3,000,000
	17.7.2009 to 16.9.2014	3,000,000	–	–	–	3,000,000
	17.7.2010 to 16.9.2014	3,000,000	–	–	–	3,000,000
Chen Ye	17.7.2008 to 16.9.2014	3,000,000	–	–	(3,000,000)	–
	17.7.2009 to 16.9.2014	3,000,000	–	–	(3,000,000)	–
	17.7.2010 to 16.9.2014	3,000,000	–	(3,000,000)	–	–
Chan Wai Dune	17.7.2008 to 16.9.2014	3,000,000	–	(3,000,000)	–	–
	17.7.2009 to 16.9.2014	3,000,000	–	(3,000,000)	–	–
	17.7.2010 to 16.9.2014	3,000,000	–	(3,000,000)	–	–
<b>Total directors</b>		<b>36,000,000</b>	<b>–</b>	<b>(12,000,000)</b>	<b>(6,000,000)</b>	<b>18,000,000</b>
Employees	17.7.2008 to 16.9.2014	16,000,000	–	–	–	16,000,000
	17.7.2009 to 16.9.2014	16,000,000	–	–	–	16,000,000
	17.7.2010 to 16.9.2014	16,000,000	–	–	–	16,000,000
<b>Total employees</b>		<b>48,000,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>48,000,000</b>
<b>Grant total</b>		<b>84,000,000</b>	<b>–</b>	<b>(12,000,000)</b>	<b>(6,000,000)</b>	<b>66,000,000</b>

All share options were granted on 17 July 2008. The number of share options and exercised price had been adjusted after share subdivision on 3 August 2009. The adjusted exercise price is HK\$0.532 per shares.

The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$1.22.

## ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## SUBSTANTIAL SHAREHOLDERS

At 31 March 2010, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

<b>Name</b>	<b>Interest in shares</b>	<b>Nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
Long Grand Limited ( <i>Note</i> )	12,887,473,880	Direct beneficial owner	68.46%

*Note:* Long Grand Limited is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2010.

## CONNECTED TRANSACTIONS

Neither the Group nor the Company has any connected transactions and/or continuing connected transactions as defined under Chapter 14A of the Listing Rules during the year under review.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 March 2010, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the market rates, workload and responsibilities and general economic situation.

The Company has adopted the share option scheme and granted share options to Directors and eligible employees for the year ended 31 March 2010. Details of the scheme and the movements in the share options granted are set out in note 37 to the consolidated financial statements.

# Directors' Report

## RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes operated by the Group are set out in note 38 to the financial statements.

## LITIGATION AND ARBITRATION

As at the date of this report, there was no any litigation and arbitration for the Group.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2010.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer and five largest customers accounted for approximately 7.94% (2009: 71.4%) and 26.38% (2009: 73.9%) respectively of the Group's total turnover for the year.

The Group's largest supplier and five largest suppliers accounted for approximately 18.31% (2009: 20.8%) and 41.25% (2009: 36.2%) respectively of the Group's total purchases for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year.

## EVENT AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

## AUDITOR

The financial statements for the year ended 31 March 2010 have been audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board  
**Chaoyue Group Limited**

**Yuen Leong**

*Director*

Hong Kong, 16 July 2010



# Independent Auditor's Report

## Deloitte.

## 德勤

**TO THE MEMBERS OF CHAOYUE GROUP LIMITED**

超越集團有限公司

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Chaoyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 91, which comprise the consolidated statement of financial position as at March 31, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and the true and fair presentation of the consolidated financial statements 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 Group as at March 31, 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

July 16, 2010

# Consolidated Statement of Comprehensive Income

For the year ended March 31, 2010

	NOTES	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>			
Revenue	8	107,700	16,732
Cost of sales		(55,996)	(10,643)
Gross profit		51,704	6,089
Other income, gains and losses	9	14,109	2,869
Distribution and selling expenses		(19,942)	(8,786)
Administrative expenses		(66,562)	(38,733)
Finance costs	10	(3,332)	(12,738)
Impairment losses on intangible assets	16	(45,694)	–
Changes in fair value of derivative financial instruments	29	(4,324,025)	2,566
Changes in fair value of derivative warrant liabilities		(2,727,689)	–
Loss before taxation		(7,121,431)	(48,733)
Income tax credit	11	13,133	627
Loss for the year from continuing operations		(7,108,298)	(48,106)
<b>Discontinued operation</b>			
Loss for the year from discontinued operation	12	(87)	(4,431)
Loss for the year	13	(7,108,385)	(52,537)
<b>Other comprehensive income for the year</b>			
Exchange differences on translation		461	12
Total comprehensive expense for the year		(7,107,924)	(52,525)
Loss for the year attributable to:			
Owners of the Company		(7,107,864)	(52,537)
Minority interests		(521)	–
		(7,108,385)	(52,537)
Total comprehensive expense attributable to:			
Owners of the Company		(7,107,450)	(52,525)
Minority interests		(474)	–
		(7,107,924)	(52,525)
Loss per share – Basic and diluted	14		
From continuing and discontinued operations		HK(46.96) cents	HK(1.56) cents
From continuing operations		HK(46.96) cents	HK(1.43) cents

# Consolidated Statement of Financial Position

At March 31, 2010

	NOTES	2010 HK\$'000	2009 HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	<b>95,491</b>	115,623
Intangible assets	16	<b>173,851</b>	91,494
Goodwill	17	<b>27,085</b>	27,085
Receivables in respect of sales of direct drinking water purification machines	21	<b>27,680</b>	–
		<b>324,107</b>	234,202
<b>CURRENT ASSETS</b>			
Inventories	19	<b>1,948</b>	5,465
Amounts due from customers for contract work	20	<b>11,296</b>	4,520
Trade and other receivables	21	<b>51,274</b>	24,649
Bank balances and cash	22	<b>83,618</b>	147,142
		<b>148,136</b>	181,776
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work	20	<b>2,249</b>	7,967
Trade and other payables	23	<b>46,756</b>	49,101
Amount due to a director of a subsidiary	24	<b>23,464</b>	25,255
Tax payable		<b>2,769</b>	2,788
Borrowings	25	<b>9,099</b>	9,070
Warranty provision	26	<b>1,281</b>	950
Deferred income	27	<b>7,238</b>	28,135
Convertible bonds	29	–	172,802
Derivative financial instruments	29	–	19,665
		<b>92,856</b>	315,733
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>55,280</b>	(133,957)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>379,387</b>	100,245

# Consolidated Statement of Financial Position

At March 31, 2010

	NOTES	2010 HK\$'000	2009 HK\$'000 (Restated)
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	27	<b>23,852</b>	4,904
Deferred taxation	28	<b>6,750</b>	22,873
		<b>30,602</b>	27,777
		<b>348,785</b>	72,468
<b>CAPITAL AND RESERVES</b>			
Share capital	32	<b>18,824</b>	3,370
Reserves		<b>324,075</b>	69,098
Equity attributable to owners of the Company		<b>342,899</b>	72,468
Minority interests		<b>5,886</b>	–
		<b>348,785</b>	72,468

The financial statements on pages 25 to 91 were approved and authorised for issue by the Board of Directors on July 16, 2010 and are signed on its behalf by:

**Yuen Leong**  
DIRECTOR

**Luan Li**  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended March 31, 2010

	Attributable to owners of the Company										
	Share capital HK\$'000	Non-voting convertible preference shares HK\$'000 (Note i)	Share premium HK\$'000	Contributed surplus (note 33) HK\$'000	Capital redemption reserve HK\$'000 (Note ii)	Share option reserve HK\$'000 (Note iii)	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At April 1, 2008	3,370	-	23,685	51,655	3,781	-	-	(12,568)	69,923	-	69,923
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	12	-	12	-	12
Loss for the year	-	-	-	-	-	-	-	(52,537)	(52,537)	-	(52,537)
Total comprehensive expense for the year	-	-	-	-	-	-	12	(52,537)	(52,525)	-	(52,525)
Share-based payments	-	-	-	-	-	13,900	-	-	13,900	-	13,900
Acquisition of subsidiaries	-	383,620	-	-	-	-	-	-	383,620	-	383,620
- as previously stated	-	383,620	-	-	-	-	-	-	383,620	-	383,620
- adjustment to provisional values (note 3)	-	(342,450)	-	-	-	-	-	-	(342,450)	-	(342,450)
- as restated	-	41,170	-	-	-	-	-	-	41,170	-	41,170
At March 31, 2009 and April 1, 2009	3,370	41,170	23,685	51,655	3,781	13,900	12	(65,105)	72,468	-	72,468
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	414	-	414	47	461
Loss for the year	-	-	-	-	-	-	-	(7,107,864)	(7,107,864)	(521)	(7,108,385)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	414	(7,107,864)	(7,107,450)	(474)	(7,107,924)
Conversion of convertible bonds into ordinary shares	12,300	-	3,639,200	-	-	-	-	-	3,651,500	-	3,651,500
Shares issued on exercise of share options	6	-	4,627	-	-	(1,441)	-	-	3,192	-	3,192
Shares issued upon exercise of warrants	3,075	-	3,637,972	-	-	-	-	-	3,641,047	-	3,641,047
Share-based payments	-	-	-	-	-	4,629	-	-	4,629	-	4,629
Share options lapsed	-	-	-	-	-	(1,758)	-	1,758	-	-	-
Shares issued upon acquisition of assets and liabilities (note 34(a))	73	-	77,440	-	-	-	-	-	77,513	6,360	83,873
<b>At March 31, 2010</b>	<b>18,824</b>	<b>41,170</b>	<b>7,382,924</b>	<b>51,655</b>	<b>3,781</b>	<b>15,330</b>	<b>426</b>	<b>(7,171,211)</b>	<b>342,899</b>	<b>5,886</b>	<b>348,785</b>

## Notes:

- (i) The non-voting convertible preference shares issuable represent the contingent consideration for acquisition of 100% equity interests in Park Wealth International Limited and its subsidiaries (the "Park Wealth Group"). For details, please refer to notes 3 and 34(b).
- (ii) The capital redemption reserve represents amounts transferred from contributed surplus upon the repurchase of the Company's shares.
- (iii) The share option reserve represents the reserve recognised as a result of the grant of share options of the Company to certain directors and employees of the Group.



# Consolidated Statement of Cash Flows

For the year ended March 31, 2010

	<i>NOTES</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Loss before taxation		<b>(7,121,518)</b>	(53,164)
Adjustments for:			
Changes in fair value of derivative financial instruments		<b>4,324,025</b>	(2,566)
Changes in fair value of derivative warrant liabilities		<b>2,727,689</b>	–
Depreciation of property, plant and equipment		<b>19,116</b>	1,921
Amortisation of intangible assets		<b>23,328</b>	2,506
Impairment losses on intangible assets		<b>45,694</b>	–
(Gain) loss on disposal of property, plant and equipment		<b>(1,733)</b>	1,441
Allowance on bad and doubtful debts, net		<b>4,230</b>	1,689
Bank interest income		<b>(134)</b>	(2,867)
Imputed interest income on non-current interest-free instalment receivables		<b>(564)</b>	–
Finance costs		<b>3,332</b>	12,738
Warranty charges		<b>834</b>	405
Share-based payment expenses		<b>4,629</b>	13,900
Operating cash flows before movements in working capital		<b>28,928</b>	(23,997)
Decrease in inventories		<b>3,517</b>	24,823
Increase in amounts due from customers for contract work		<b>(6,776)</b>	(1,924)
Increase in receivables in respect of sales of direct drinking water purification machines		<b>(13,512)</b>	–
(Increase) decrease in trade and other receivables		<b>(23,167)</b>	17,764
Decrease in amounts due to customers for contract work		<b>(5,718)</b>	(3,249)
Decrease in trade and other payables		<b>(11,248)</b>	(982)
Decrease in warranty provision		<b>(503)</b>	(278)
Increase in deferred income		<b>6,498</b>	5,555
Cash (used in) generated from operations		<b>(21,981)</b>	17,712
Enterprise income tax (“EIT”) paid, net		<b>(3,009)</b>	–
Hong Kong Profits Tax paid		–	(448)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>		<b>(24,990)</b>	17,264

# Consolidated Statement of Cash Flows

For the year ended March 31, 2010

	<i>NOTES</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Acquisition of assets and liabilities (net of cash and cash equivalents acquired)	<i>34(a)</i>	<b>(62,063)</b>	–
Purchases of property, plant and equipment		<b>(25,584)</b>	(31,351)
Proceeds from disposal of property, plant and equipment		<b>1,448</b>	197
Interest received		<b>134</b>	2,867
Acquisition of business (net of cash and cash equivalents acquired)	<i>34(b)</i>	–	8,605
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(86,065)</b>	(19,682)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of new shares upon exercise of warrants	<i>30</i>	<b>46,125</b>	–
Proceeds from issue of new shares upon exercise of share options		<b>3,192</b>	–
Repayment to a director of a subsidiary		<b>(1,791)</b>	–
Repayment of borrowings		–	(116,000)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		<b>47,526</b>	(116,000)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(63,529)</b>	(118,418)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>147,142</b>	265,532
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>5</b>	28
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b> represented by bank balances and cash		<b>83,618</b>	147,142

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). At the end of the reporting period, the parent company and ultimate holding company is Long Grand Limited, a company incorporated in British Virgin Islands (the "BVI"). The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information section of the Annual Report.

The functional currency of the Company is Renminbi ("RMB") as the Group's operation is mainly in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Hong Kong Dollars ("HKD"). The directors consider that HKD is the appropriate presentation currency as the management of the Company controls and monitors the performance and financial position of the Group by using HKD.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 40.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the accounting periods beginning on or after April 1, 2009

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8 (Amendments)	Operating Segments
Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") – Interpretations – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after July 1, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### **HKAS 1 (Revised 2007) Presentation of Financial Statements**

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

### **Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)**

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>3</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>7</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>5</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>4</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>5</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>4</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>8</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>7</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2009

<sup>2</sup> Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2010

<sup>5</sup> Effective for annual periods beginning on or after February 1, 2010

<sup>6</sup> Effective for annual periods beginning on or after July 1, 2010

<sup>7</sup> Effective for annual periods beginning on or after January 1, 2011

<sup>8</sup> Effective for annual periods beginning on or after January 1, 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### *Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)* (Continued)

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

## 3. PRIOR YEAR ADJUSTMENTS

In February 2009, the Group acquired 100% equity interest in Park Wealth Group from independent third parties which resulted in a goodwill initially recognised in the consolidated financial statements of the Group for the year ended March 31, 2009 of approximately HK\$369,535,000. The consideration for this acquisition will be settled by the Company by the allotment and issuance of non-voting convertible preference shares ("Convertible Preference Shares"). The number of Convertible Preference Shares to be issued is subject to the finalisation of the audited profit of Park Wealth Group for the year ended December 31, 2009. In the consolidated financial statements of the Group for the year ended March 31, 2009, the estimated number, and fair value, of Convertible Preference Shares to be issued (see note 31) and the fair value of the assets and liabilities of Park Wealth Group acquired were determined on a provisional basis. As such, the goodwill which arose on acquisition of subsidiaries may be adjusted accordingly as a result of the finalisation of the above.

During the year ended March 31, 2010, the management has completed the accounting for the acquisition of Park Wealth Group and finalised the determination of the cost of the business combination, which is represented by the fair value of the consideration shares (i.e. Convertible Preference Shares) issuable. As a result, the Group revised the fair value of the Convertible Preference Shares from approximately HK\$369,535,000 to HK\$41,170,000.

The impacts on the consolidated statement of financial position for the year ended March 31, 2009 are as follows:

### Consolidated statement of financial position

	As at March 31, 2009 (originally stated) HK\$'000	Adjustments HK\$'000	As at March 31, 2009 (restated) HK\$'000
Goodwill	369,535	(342,450)	27,085
Non-voting convertible preference shares	(383,620)	342,450	(41,170)
	(14,085)	–	(14,085)

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, and in accordance with accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposed, 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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority interest has a binding obligation and is able to make an additional investment to cover the losses.

### **Business combinations**

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combination agreements with adjustments to the cost of combination based on contingent events are included in the cost of combination at the acquisition date if the adjustment is probable and can be measured reliably.



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Royalty fee income is recognised when the rights to receive payment are established.

Income from leasing of direct drinking water purification machines when lease term and rental are fixed or pre-determined is recognised on a straight-line basis over the relevant lease terms. When rental from leasing of direct drinking water purification machines is charged based on the volume of water purified by the direct drinking water purification machines, rental income is recognised according to volume of water purified. Prepayment received in advance of the commencement of the lease term of direct drinking water purification machines is recorded as deferred income and is released to profit or loss on a straight line basis over the relevant lease terms when lease term and rental are fixed or pre-determined or when water is purified by the direct drinking water purification machines, as appropriate.

Contract revenue from construction and installation contract is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the stage of completion of the contract activity at the end of the reporting period. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Government grants**

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### **Property, plant and equipment**

Property, plant and equipment other than assets under construction are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than assets under construction over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Assets under construction include property, plant and equipment in the course of construction for production or for its own use purposes. Assets under construction are carried at cost less any recognised impairment loss. Assets under construction are transferred to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

### **Leasing**

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

#### ***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### ***The Group as lessor***

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease when lease term and rental are fixed or predetermined or based on the volume of water purified by the direct drinking water purification machines, as appropriate.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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

### Retirement benefit scheme

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme which are defined contribution schemes are charged as an expense when employees have rendered service entitling them to the contributions.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Intangible assets**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses as follows:

#### **(i) Mining rights**

Mining rights are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using (i) the units of production method based on the proven and probable mineral reserves; or (ii) straight line method over the remaining terms of the mining right if no mining activity is carried out.

#### **(ii) Patents**

Patents are stated at cost less accumulated amortisation and impairment losses. The patents are amortised on a straight line basis over the respective periods of the useful life.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

### **Impairment losses on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount 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 as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 as income immediately.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Construction contracts**

The Group is engaged in the construction and installation of air purification and sewage treatment system. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair values of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### **Financial assets**

The Group's financial assets are generally classified as loans and other receivables.



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Financial instruments** (Continued)

#### **Financial assets** (Continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Financial instruments** (Continued)

#### **Financial assets** (Continued)

##### *Impairment of financial assets* (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### *Convertible bonds*

Convertible bonds issued by the Group that contain liability, conversion option derivative and early redemption option derivative components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability, conversion option derivative and early redemption option derivative components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative and early redemption option derivative components are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and embedded derivatives components in proportion to their relative fair values. Transaction costs relating to the embedded derivatives component are charged to 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 convertible bonds using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Financial instruments** (Continued)

#### **Financial liabilities and equity** (Continued)

##### *Non-voting convertible preference shares*

Non-voting convertible preference shares which are non-redeemable financial instruments that can only be converted to a fixed number of the ordinary shares of the Company are accounted for as equity and measured at fair value at initial recognition.

When the non-voting convertible preference shares are converted, the convertible preference shares is transferred to ordinary share capital and share premium. Transaction costs relating to issuance of the equity instrument are charged directly to equity.

##### *Other financial liabilities*

Other financial liabilities including trade and other payables, amount due to a director of a subsidiary and borrowings are subsequently measured at amortised cost, using the effective interest method.

##### *Derivative warrant liabilities*

Derivative warrant liabilities are initially recognised at fair value on the date of grant and are subsequently remeasured to their fair value at the end of the reporting period. Changes in the fair value of derivative warrant liabilities are recognised in the profit or loss.

##### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions

#### *Equity-settled share-based payment transactions*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve.

At the end of reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, the management has made various estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### **Impairment of goodwill**

Determining whether goodwill are impaired requires an estimation of recoverable amount of the cash-generating units ("CGUs") to which these assets has been allocated which is based on the value in use of the relevant CGUs. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. When the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at March 31, 2010 was HK\$27,085,000 (2009: HK\$27,085,000).

### **Impairment of intangible assets**

As at March 31, 2010, the management reconsidered the recoverability of intangible assets, which is included in its consolidated statement of financial position, of approximately HK\$173,851,000 (2009: HK\$91,494,000). Management has evaluated the recoverability of impairment of intangible assets by way of discounted cash flow analysis on sales forecast and discount rate and a considerable amount of judgment is required. If the actual sales forecasts are less than expected, impairment may be required.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### **Estimated useful life for direct drinking water purification machines**

The Group depreciates direct drinking water purification machines over their estimated useful lives and after taking into account of their estimated residual values, where appropriate, using the straight line method. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

During the year ended March 31, 2010, the directors evaluated the useful lives for the direct drinking water purification machines, through careful consideration with regards to expected usage, expected wear-and-tear, potential for technical obsolescence and any future legal limitations to usage of the assets. Further, the directors carefully considered the historical experience with similar assets in determining the estimated useful life, as well as taking into account anticipated technological or other changes. As a result of this reassessment, the directors concluded that the remaining useful lives of these direct drinking water purification machines should be reduced from approximately 9 years to 5 years. The directors consider this to be a change in accounting estimate and have therefore accounted for the change prospectively from April 1, 2009. The effect of this change in accounting estimate is to increase the depreciation charge for the year ended March 31, 2010 by HK\$4,841,000 and to decrease the profit for the year ended March 31, 2010 by HK\$3,631,000. As at March 31, 2010, the carrying amount of direct drinking water purification machines was approximately HK\$68,278,000 (2009: HK\$86,241,000).

### **Allowance for bad and doubtful debts**

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at March 31, 2010, the carrying amount of trade receivables is HK\$27,824,000 (net of allowance for doubtful debts of HK\$5,919,000) (2009: carrying amount of HK\$16,098,000, net of allowance for doubtful debts of HK\$1,689,000).

### **Revenue recognition of construction contracts**

Revenue from construction contracts for construction and installation of air purification and sewage treatment system is recognised on the percentage of completion method, measured by reference to the proportion of the contract value for the work performed to date over the estimated total revenue. Accordingly, any changes to the percentage of completion of the relevant construction contract may have material impact on the contract revenue recognised in each accounting period over the contract term and the related amount due from (to) customers for contract work.

### **Revenue recognition of leasing income from direct drinking water purification machines**

Revenue from leasing of direct drinking water purification machines when the rental receivable is not fixed or pre-determined is recognised based on the estimated level of volume of water purified by the direct drinking water purification machines, taking into account of the purchase frequency of the recharge cards which customers purchase for operation of the direct drinking water purification machines, by each individual customer. Accordingly, any changes to the estimated consumption volume may have material impact on the rental income recognised in each accounting period and the deferred income amount at the end of reporting period.



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Provision

Provision has been made for additional costs to repair or replace defective goods, such as labour (whether internal or external) and material costs, and cost that might not be recovered from customers for rework. The provision requires management to estimate the extent of repair work and replacements with reference to historical warranty trends. Any of these factors may affect the extent of the repair work or replacement required and therefore the ultimate repair and replacement costs to be incurred in the future period.

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the amount due to a director of a subsidiary disclosed in note 24, borrowings disclosed in note 25 and convertible bonds disclosed in note 29, cash and cash equivalents disclosed in note 22, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new shares issues, and share buy-back as well as the issue of new debt or the redemption of existing debt.

## 7. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2010 HK\$'000	2009 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	138,871	164,115
<b>Financial liabilities</b>		
Amortised cost	50,330	236,069
Derivative financial instruments	–	19,665
	<b>50,330</b>	<b>255,734</b>



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 7. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amount due to a director of a subsidiary, borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes.

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including currency risks and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Foreign currency risk management*

The Group has bank balances and other payables denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of respective reporting periods are as follow:

	2010 HK\$'000	2009 HK\$'000
<b>Assets</b>		
HKD	53,322	47,821
United States Dollars ("USD")	23,932	96,194
<b>Liabilities</b>		
HKD	-	1,452

The Group currently does not enter into any derivative contracts to minimise the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 7. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Foreign currency risk management** (Continued)

##### *Sensitivity analysis*

The Group is mainly exposed to the effects of fluctuation in HKD and USD against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against the relevant foreign currencies. 5% is the sensitivity rate used in management's assessment of the possible reasonably change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates an increase in loss before tax for the year where the RMB strengthens against the relevant currencies. For a 5% weakening of the RMB against the relevant currencies, there would be an equal and opposite impact on the result for the year.

	2010	2009
	HK\$'000	HK\$'000
<b>RMB against HKD</b>		
Result for the year	<b>(2,666)</b>	(2,319)
<b>RMB against USD</b>		
Result for the year	<b>(1,197)</b>	(4,810)

#### **Interest rate risk management**

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowing and the convertible bonds issued by the Group (see notes 25 and 29 for details of borrowings and convertible bonds, respectively). The Group currently do not enter into any hedging instrument for fair value interest rate risk.

The directors of the Company consider the exposure to interest rate risk is minimal and no sensitivity analysis on cash flow interest rate risk is therefore presented.

#### **Credit risk management**

As at March 31, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 7. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Credit risk management** (Continued)

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

The Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation.

#### **Liquidity risk management**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>As at March 31, 2010</b>						
<b>Non-derivative financial liabilities</b>						
Trade payables	-	2,933	5,286	2,200	10,419	10,419
Other payables	-	2,705	2,955	1,688	7,348	7,348
Amount due to a director of a subsidiary	-	23,464	-	-	23,464	23,464
Borrowings	12%	-	-	10,190	10,190	9,099
		29,102	8,241	14,078	51,421	50,330
<b>As at March 31, 2009</b>						
<b>Non-derivative financial liabilities</b>						
Trade payables	-	15,280	6,019	-	21,299	21,299
Other payables	-	7,643	-	-	7,643	7,643
Amount due to a director of a subsidiary	-	25,255	-	-	25,255	25,255
Borrowings	12%	-	3,503	5,896	9,399	9,070
Convertible bonds	7.95%	-	-	184,500	184,500	172,802
		48,178	9,522	190,396	248,096	236,069
<b>Derivative financial instruments</b>	-	-	-	19,665	19,665	19,665

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 7. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value

The fair value of financial assets and financial liabilities are determined as follow:

- the fair value of other financial assets and financial liabilities (except for derivative) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quoted for similar instruments as input; and
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 8. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year for both continuing and discontinued operations is as follows:

	2010 HK\$'000	2009 HK\$'000
Sale of goods	22,521	45,790
Contract revenue	17,198	8,004
Rental income	44,346	6,739
Royalty fee income ( <i>Note</i> )	23,635	–
	<b>107,700</b>	60,533
Continuing operations	107,700	16,732
Discontinued operation ( <i>note 12</i> )	–	43,801
	<b>107,700</b>	60,533

*Note:* The Group enters into certain royalty agreements with independent parties ("Agents") whereby the Agents paid the Group a yearly royalty fee plus a variable royalty fee calculated based on the additional direct drinking water purification machines purchased and operated by the Agents. During the year ended March 31, 2010, the Agents have prepaid the variable royalty fee relating to those additional direct water machines purchased and operated and such prepaid royalty fee is recognised as deferred revenue and amortised according to the relevant service period on a straight line basis. The amount amortised as revenue amounted to HK\$143,000 during the year ended March 31, 2010.

In addition, the Group recognised yearly royalty fee amounting to HK\$23,492,000 as revenue during the year ended March 31, 2010.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 8. REVENUE AND SEGMENT INFORMATION (Continued)

The Group has adopted HKFRS 8 "Operating Segments" ("HKFRS 8") with effect from April 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, "Segment Reporting") ("HKAS 14") required an entity to identify two sets of segments (business and geographical) using a risk and return approach. However, segment information reported externally in prior years and to the Group's Chief Executive Officer, being the CODM, for the purposes of resource allocation and assessment of performance was the same and analysed on the basis of the Group's operating divisions. As a result, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss, segment assets and segment liabilities.

The Group's operating segments under HKFRS 8, and their principal activities are as follows:

### Continuing operations

- |                           |   |   |
|---------------------------|---|---|
| Direct drinking water     | – | Lease of direct drinking water purification machines and royalty income for use of the Group's brand name |
| Purification equipment    | – | Manufacturing and sales of air purification and water purification equipments                             |
| Environmental engineering | – | Construction and installation of air purification and sewage treatment system                             |
| Mining                    | – | Mining for gold and copper  |

### Discontinued operation

- |         |   |   |
|---------|---|---|
| Garment | – | The Group was involved in manufacturing and sales of garment business, which was reported as a separate segment under HKAS 14 in previous year. This operation was discontinued with effect from July 2009 (note 12). |
|---------|---|---|

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 8. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

#### For the year ended March 31, 2010

	Continuing operations					Discontinued operation		Consolidated HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Elimination HK\$'000	Total HK\$'000	Garment HK\$'000	
<b>REVENUE</b>								
External sales	67,981	22,521	17,198	-	-	107,700	-	107,700
Inter-segment sales	-	35,379	-	-	(35,379)	-	-	-
<b>Total</b>	<b>67,981</b>	<b>57,900</b>	<b>17,198</b>	<b>-</b>	<b>(35,379)</b>	<b>107,700</b>	<b>-</b>	<b>107,700</b>
<b>RESULT</b>								
Segment result	(33,250)	(1,407)	2,165	(4,090)	553	(36,029)	(87)	(36,116)
Unallocated income						698	-	698
Unallocated corporate expenses						(31,054)	-	(31,054)
Finance costs						(3,332)	-	(3,332)
Changes in fair value of derivative financial instruments						(4,324,025)	-	(4,324,025)
Changes in fair value of derivative warrant liabilities						(2,727,689)	-	(2,727,689)
<b>Loss before taxation</b>						<b>(7,121,431)</b>	<b>(87)</b>	<b>(7,121,518)</b>



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 8. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenue and results (Continued)

For the year ended March 31, 2009

	Continuing operations					Discontinued operation		Consolidated HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Elimination HK\$'000	Total HK\$'000	Garment HK\$'000	
<b>REVENUE</b>								
External sales	6,739	1,989	8,004	-	-	16,732	43,801	60,533
Inter-segment sales	-	21,100	-	-	(21,100)	-	-	-
<b>Total</b>	<b>6,739</b>	<b>23,089</b>	<b>8,004</b>	<b>-</b>	<b>(21,100)</b>	<b>16,732</b>	<b>43,801</b>	<b>60,533</b>
<b>RESULT</b>								
Segment result	(5,243)	(1,026)	1,428	-	(1,919)	(6,760)	(3,122)	(9,882)
Unallocated income						2,561	306	2,867
Unallocated corporate expenses						(34,362)	(1,615)	(35,977)
Finance costs						(12,738)	-	(12,738)
Changes in fair value of derivative financial instruments						2,566	-	2,566
<b>Loss before taxation</b>						<b>(48,733)</b>	<b>(4,431)</b>	<b>(53,164)</b>

Note: Inter-segment sales are charged at prevailing market rates.

The accounting policies of the reportable segments are the same as the Group's accounting policies in note 4. Segment results represent the results from each segment without allocation of central administration costs and directors' salaries, some items of other income, finance costs, changes in fair value of derivative financial instruments, changes in fair value of derivative warrant liabilities. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 8. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment.

	2010 HK\$'000	2009 HK\$'000 (Restated)
<b>ASSETS</b>		
<i>Segment assets</i>		
Direct drinking water	<b>152,874</b>	224,187
Purification equipment	<b>56,861</b>	30,524
Environmental engineering	<b>25,811</b>	12,747
Mining	<b>146,851</b>	–
<b>Total segment assets</b>	<b>382,397</b>	267,458
<i>Unallocated assets</i>		
– Bank balance and cash	<b>83,618</b>	147,142
– Others	<b>6,228</b>	1,378
<b>Total unallocated assets</b>	<b>89,846</b>	148,520
<b>Consolidated total assets</b>	<b>472,243</b>	415,978
<b>LIABILITIES</b>		
<i>Segment liabilities</i>		
Direct drinking water	<b>46,104</b>	60,105
Purification equipment	<b>17,868</b>	11,588
Environmental engineering	<b>6,903</b>	17,681
Mining	<b>2,309</b>	–
<b>Total segment liabilities</b>	<b>73,184</b>	89,374
<i>Unallocated liabilities</i>		
– Amount to a director of a subsidiary	<b>23,464</b>	25,255
– Tax payable	<b>2,769</b>	2,788
– Borrowings	<b>9,099</b>	9,070
– Convertible bonds	–	172,802
– Derivative financial instruments	–	19,665
– Deferred taxation	<b>6,750</b>	22,873
– Others	<b>8,188</b>	1,500
<b>Total unallocated liabilities</b>	<b>50,270</b>	253,953
<b>Liabilities relating to discontinued operation</b>	<b>4</b>	183
<b>Consolidated total liabilities</b>	<b>123,458</b>	343,510

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 8. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than bank balances and cash and other assets not attributable to respective segment; and
- all liabilities are allocated to reportable segments other than amount due to a director of a subsidiary, tax payable, borrowings, convertible bonds, derivative financial instruments, derivative warrant liabilities, deferred taxation and other liabilities not attributable to respective segment.

### Other segment information

For the year ended March 31, 2010

	Continuing operations				Discontinued operation		Total HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Garment HK\$'000	Unallocated HK\$'000	
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>							
Capital additions (note)	19,154	6,421	-	153,008	-	9	178,592
Depreciation of property, plant and equipment	14,006	4,970	-	-	-	140	19,116
Amortisation of patents	18,800	-	-	-	-	-	18,800
Amortisation of mining rights	-	-	-	4,528	-	-	4,528
Gain on disposal of property, plant and equipment	(1,733)	-	-	-	-	-	(1,733)
Impairment losses on intangible assets	45,694	-	-	-	-	-	45,694
Allowance on bad and doubtful debts, net	506	1,660	2,064	-	-	-	4,230
Recovery of on trade receivables written off	(2,059)	(2,917)	(4,320)	-	-	-	(9,296)

For the year ended March 31, 2009

	Continuing operations				Discontinued operation		Total HK\$'000
	Direct drinking water HK\$'000	Purification equipment HK\$'000	Environmental engineering HK\$'000	Mining HK\$'000	Garment HK\$'000	Unallocated HK\$'000	
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>							
Capital additions (note)	184,730	26,117	-	-	-	26	210,873
Depreciation of property, plant and equipment	962	336	-	-	89	534	1,921
Amortisation of patents	2,506	-	-	-	-	-	2,506
(Gain) loss on disposal of property, plant and equipment	(19)	-	-	-	1,398	62	1,441
Allowance on bad and doubtful debts, net	1,077	265	347	-	-	-	1,689

Note: Capital additions included additions to property, plant and equipment and intangible assets.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 8. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

The Group's operations are principally located in the PRC (country of domicile) and Kyrgyzstan.

In presenting geographical information, revenue is based on the geographical location of customers. Non-current assets are based on the geographical location of the assets.

#### For the year ended March 31, 2010

	The PRC HK\$'000	Kyrgyzstan HK\$'000	Total HK\$'000
Revenue from continuing operations			
from external customers	107,700	–	107,700
Non-current assets excluding financial instruments	149,576	146,851	296,427

#### For the year ended March 31, 2009

##### Continuing operations

	The PRC HK\$'000	Kyrgyzstan HK\$'000	Total HK\$'000 (Restated)
Revenue from external customers	16,732	–	16,732
Non-current assets excluding financial instruments	234,202	–	234,202

##### Discontinued operation

	The PRC HK\$'000	Kyrgyzstan HK\$'000	Total HK\$'000
Revenue from external customers	43,801	–	43,801
Non-current assets excluding financial instruments	–	–	–

### Information about major customers

During the year ended March 31, 2009, a customer from the garment business contribute over 10% of the total sales of the Group.

During the year ended March 31, 2010, there are no individual customers who contributed over 10% of the total sales of the Group.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 9. OTHER INCOME, GAINS AND LOSSES

	Continuing operation		Discontinued operation		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Bank interest income	134	2,561	–	306	134	2,867
Imputed interest income on interest-free instalment receivables	564	–	–	–	564	–
Gain on disposal of property, plant and equipment (Note a)	1,733	–	–	–	1,733	–
Government grant (Note b)	789	–	–	–	789	–
Recovery of trade receivables written off	9,296	–	–	–	9,296	–
Others	1,593	308	98	253	1,691	561
	<b>14,109</b>	<b>2,869</b>	<b>98</b>	<b>559</b>	<b>14,207</b>	<b>3,428</b>

Notes:

- (a) During the year ended March 31, 2010, the Group disposed of certain direct drinking water purification machines, which were leased out under operating leases and classified under property, plant and equipment, with carrying amount of approximately HK\$26,874,000 to the Agents at a consideration of approximately HK\$26,874,000, payable by interest free installments over a period of five years. The present value of the consideration receivable, net of related tax payable, amounted to approximately HK\$20,058,000. Upon the disposal, deferred income amounting to approximately HK\$8,549,000 which represents rental received in advance for the drinking water purification machine from the existing lessees has been released to profit and loss and forms part of the gain on disposal of the assets.
- (b) The amount represents the grants received from the relevant PRC government to encourage the development of advanced technology enterprises. The subsidies were unconditional and granted on a discretionary basis to the Group during the year.

## 10. FINANCE COSTS

	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Interests on convertible bonds	2,241	12,593
Interest on borrowings wholly repayable within five years	1,091	145
	<b>3,332</b>	<b>12,738</b>

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 11. INCOME TAX CREDIT

	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Current tax – PRC EIT	2,990	–
Underprovision in prior years – Hong Kong Profits Tax	–	19
Deferred taxation ( <i>note 28</i> )	(16,123)	(646)
	<b>(13,133)</b>	<b>(627)</b>

During the year ended March 31, 2010, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the income of the Group neither arises in nor is derived from Hong Kong. During the year ended March 31, 2009, no Hong Kong Profits Tax is payable since there is no assessable profit.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards except for Shanghai Comfort Environment and Science Company Limited ("Shanghai Comfort"), which is registered in Shanghai Pudong New Area and regarded as advanced technology enterprises by local tax bureau. Shanghai Comfort is entitled to the PRC income tax at concessionary rate of 15% from year 2008 to 2010.

The income tax credit for the year can be reconciled to the loss before taxation as follows:

	2010 HK\$'000	2009 HK\$'000
Loss before taxation:		
Continuing operations	7,121,431	48,733
Discontinued operation	87	4,431
	<b>7,121,518</b>	<b>53,164</b>
Tax at the domestic income tax rate of 25% (2009: 25%)	(1,780,380)	(13,291)
Tax effect of income not taxable for tax purposes	(1,441)	(330)
Tax effect of expenses not deductible for tax purposes	1,773,998	5,970
Tax effect of tax losses not recognised	184	7,005
Utilisation of tax losses previously not recognised	(5,387)	–
Income tax on concessionary rate	(107)	–
Underprovision in prior years	–	19
Income tax credit for the year	<b>(13,133)</b>	<b>(627)</b>

The domestic income tax rate represents the tax rate in the jurisdiction where the operation of the Group is substantially based.



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 12. DISCONTINUED OPERATION

Due to the continuous adverse operating environment as a result of the economic downturn since the second half of year 2008, the Group had encountered significant difficulties in obtaining orders from customers for its garment business which had ceased to generate meaningful return to the Group. In light of this, the management had resolved to abandon the garment business of the Group and hence had ceased to accept any new garment trading business and have laid off all of the staffs within the garment business in July 2009. As the amount of assets employed in the garment business is not significant, the management does not consider the discontinuation of the garment business would have any material impact on the Group's financial result.

The results of the garment business, which have been included in the consolidated statement of comprehensive income, are as follows:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Revenue	–	43,801
Cost of sales	–	(42,872)
Gross profit	–	929
Other income	<b>98</b>	559
Distribution and selling expenses	–	(216)
Administrative and other expenses	<b>(185)</b>	(5,703)
Loss for the year	<b>(87)</b>	(4,431)

Cash flows from discontinued operation:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Net cash (outflows) inflows from operating activities	<b>(7,197)</b>	22,930
Net cash inflows from investing activities	–	356
Net cash outflows from financing activities	–	(40,600)
Net cash outflows	<b>(7,197)</b>	(17,314)

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 13. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting):

	Continuing operation		Discontinued operation		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Directors' emoluments ( <i>note 13(a)</i> )	2,983	7,257	–	–	2,983	7,257
Other staff costs	20,873	12,616	140	2,174	21,013	14,790
Other staff retirement benefit scheme contributions	1,649	197	3	70	1,652	267
<b>Total staff costs</b>	<b>25,505</b>	<b>20,070</b>	<b>143</b>	<b>2,244</b>	<b>25,648</b>	<b>22,314</b>
Auditor's remuneration	1,650	950	–	–	1,650	950
Allowance on bad and doubtful debts, net	4,230	1,689	–	–	4,230	1,689
Cost of inventories recognised as expenses	52,317	7,550	–	42,872	52,317	50,422
Depreciation of property, plant and equipment	19,116	1,832	–	89	19,116	1,921
Amortisation of intangible assets included in administrative expenses	23,328	2,506	–	–	23,328	2,506
(Gain) loss on disposal of property, plant and equipment	(1,733)	43	–	1,398	(1,733)	1,441

Notes:

### (a) Information regarding directors' and employees' emoluments

The emoluments paid or payable to each of the seven (2009: four) directors are as follows:

	Executive Director		Independent non-executive director					2010 Total HK\$'000
	Yuen Leong HK\$'000	Luan Li HK\$'000	Chen Ye HK\$'000 (Note)	Chan Wai Dune HK\$'000 (Note)	Lam Man Kit Dominic HK\$'000	Yap Yung HK\$'000	Zhang Guang Sheng HK\$'000	
Fees	–	–	78	67	200	123	123	591
Other emoluments								
Salaries and other benefits	600	369	–	–	–	–	–	969
Share-based payments	601	–	221	–	601	–	–	1,423
	1,201	369	299	67	801	123	123	2,983

Note: These two directors resigned and retired as directors of the Company during the year ended March 31, 2010.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 13. LOSS FOR THE YEAR (Continued)

Notes: (Continued)

### (a) Information regarding directors' and employees' emoluments (Continued)

	Executive director	Independent non-executive director			2009 Total HK\$'000
	Yuen Leong HK\$'000	Chen Ye HK\$'000	Chan Wai Dune HK\$'000	Lam Man Kit Dominic HK\$'000	
Fees	–	200	200	200	600
Other emoluments					
Salaries and other benefits	700	–	–	–	700
Share-based payments	1,490	1,489	1,489	1,489	5,957
	2,190	1,689	1,689	1,689	7,257

### (b) Employees

The five highest paid individuals of the Group included two directors (2009: three directors), whose emoluments are disclosed above. The emoluments of the remaining three (2009: two) highest paid employees are as follows:

	2010 HK\$'000	2009 HK\$'000
Salaries and others	2,342	1,542
Share-based payments	2,672	6,619
Retirement benefit scheme contributions	36	24
	5,050	8,185

Their emoluments were within the following bands:

	2010 Number of employee	2009 Number of employee
HK\$ nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	–	1

During the years ended March 31, 2010 and 2009, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 14. LOSS PER SHARE

### From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2010 HK\$'000	2009 HK\$'000
<b>Loss</b>		
Loss for the year attributable to owners of the Company for the purpose of loss per share	<b>(7,107,864)</b>	(52,537)
<b>Number of shares</b>		
Weighted average number of shares for the purpose of loss per share	<b>15,135,319,749</b>	3,370,310,160 (Note)

Note: The weighted average number of ordinary shares for the purpose of loss per share has been adjusted for the share subdivision made during the year ended March 31, 2010.

### From continuing operations

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

	2010 HK\$'000	2009 HK\$'000
<b>Loss</b>		
Loss for the year attributable to owners of the Company	<b>(7,107,864)</b>	(52,537)
Less: Loss for the year from discontinued operation	<b>(87)</b>	(4,431)
Loss for the purpose of loss per share from continuing operations	<b>(7,107,777)</b>	(48,106)

The denominators used are the same as those detailed above for loss per share from continuing and discontinued operations.

### From discontinued operation

For the years ended March 31, 2010 and 2009, basic and diluted loss per share from discontinued operation is approximately HK\$Nil and HK\$0.13 cents per share, respectively, based on the loss for the year from discontinued operation of approximately HK\$87,000 and HK\$4,431,000, respectively, and the denominators detailed above for loss per share from continuing and discontinued operations.

The computation of diluted loss per share for both years does not take into account the effect of share options granted, the conversion of convertible bonds and convertible preference shares and the warrants issued by the Company as these would result in a decrease in loss per share.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 15. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Assets under construction HK\$'000	Total HK\$'000
<b>COST</b>						
At April 1, 2008	17,241	3,902	2,232	2,083	–	25,458
Exchange adjustments	(63)	(1)	(1)	–	–	(65)
Acquisition of business (note 34(b))	81,640	2,307	759	–	816	85,522
Additions	10,125	220	–	13	20,993	31,351
Disposals	(17,337)	(3,834)	(2,231)	–	–	(23,402)
Reclassification	20,075	–	–	–	(20,075)	–
At March 31, 2009 and April 1, 2009	111,681	2,594	759	2,096	1,734	118,864
Exchange adjustments	353	8	2	1	3	367
Additions	7,911	143	–	292	17,238	25,584
Disposals	(28,801)	(56)	–	–	–	(28,857)
Reclassification	18,975	–	–	–	(18,975)	–
<b>At March 31, 2010</b>	<b>110,119</b>	<b>2,689</b>	<b>761</b>	<b>2,389</b>	<b>–</b>	<b>115,958</b>
<b>DEPRECIATION</b>						
At April 1, 2008	15,617	3,417	2,213	1,837	–	23,084
Provided for the year	1,648	128	51	94	–	1,921
Eliminated on disposals	(16,037)	(3,496)	(2,231)	–	–	(21,764)
At March 31, 2009 and April 1, 2009	1,228	49	33	1,931	–	3,241
Exchange adjustment	30	1	–	–	–	31
Provided for the year	18,024	744	230	118	–	19,116
Eliminated on disposals	(1,892)	(29)	–	–	–	(1,921)
<b>At March 31, 2010</b>	<b>17,390</b>	<b>765</b>	<b>263</b>	<b>2,049</b>	<b>–</b>	<b>20,467</b>
<b>CARRYING VALUES</b>						
<b>At March 31, 2010</b>	<b>92,729</b>	<b>1,924</b>	<b>498</b>	<b>340</b>	<b>–</b>	<b>95,491</b>
At March 31, 2009	110,453	2,545	726	165	1,734	115,623

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above property, plant and equipment, other than assets under construction, are depreciated on a straight-line basis after taking into account their estimated residual values at the following rates per annum:

Machinery and equipment	10 – 33 $\frac{1}{3}$ %
Furniture and office equipment	10 – 33 $\frac{1}{3}$ %
Motor vehicles	10 – 20%
Leasehold improvements	Shorter of the lease periods or five years

## 16. INTANGIBLE ASSETS

The movements in intangible assets during the year is summarised as follows:

	Patents HK\$'000 (Note a)	Mining rights HK\$'000 (Note b)	Total HK\$'000
<b>COST</b>			
At April 1, 2008	–	–	–
Acquisition of business (note 34(b))	94,000	–	94,000
At March 31, 2009 and April 1, 2009	94,000	–	94,000
Acquisition of assets and liabilities (note 34(a))	–	153,008	153,008
Exchange adjustments	–	(1,629)	(1,629)
<b>At March 31, 2010</b>	<b>94,000</b>	<b>151,379</b>	<b>245,379</b>
<b>AMORTISATION AND IMPAIRMENT</b>			
At April 1, 2008	–	–	–
Amortisation	2,506	–	2,506
At March 31, 2009 and April 1, 2009	2,506	–	2,506
Amortisation	18,800	4,528	23,328
Impairment losses recognised	45,694	–	45,694
<b>At March 31, 2010</b>	<b>67,000</b>	<b>4,528</b>	<b>71,528</b>
<b>CARRYING VALUES</b>			
<b>At March 31, 2010</b>	<b>27,000</b>	<b>146,851</b>	<b>173,851</b>
At March 31, 2009	91,494	–	91,494



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 16. INTANGIBLE ASSETS (Continued)

Notes:

- a. The patents arise on acquisition of Park Wealth Group in relation to the design and production of direct drinking water purification machines which have finite useful lives. Such patents are amortised on a straight line basis over the estimated useful life of approximately five years.

During the year ended March 31, 2010, impairment loss in respect of patents of approximately HK\$45,964,000 was recognised by reference to the valuation report issued by BMI Appraisals Limited ("BMI") as at March 31, 2010. The recoverable amount is determined based on the fair value, which was calculated based on the relief from royalty approach where the royalty rate used is 2.8% per annum. The discount rate used in arriving at the fair value of the patent is 23.5%. BMI is a firm of independent qualified professional valuers not connected with the Group. The main factor contributing to the impairment was reduction in the expected revenue of the direct drinking segment as the actual revenue did not turn out as previously expected.

- b. The mining rights arise on acquisition of Eagle Mountain Holdings Limited and its subsidiaries (the "Eagle Mountain Group") during the year ended March 31, 2010 (see note 34(a)). At subsequent reporting periods, mining rights is measured using the cost model subjected to impairment.

Amortisation is provided to write off the cost of the mining rights using (i) the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining rights till all proven and probable mineral reserves have been depleted if the mining activity is carried out; or (ii) straight line method over the remaining terms of the mining rights if no mining activity is carried out. During the year, the mine was not operated and accordingly, amortisation on the mining rights was amortised under straight line method over the remaining terms of the mining rights (i.e. April 1, 2010 to December 31, 2021).

The recoverable amounts of the mining rights were assessed by the directors with reference to the value in use as at March 31, 2010 performed by BMI. The recoverable amounts of the mining rights were determined by BMI using a cash flow projection based on financial budgets covering a 5 year period approved by senior management. The discount rate and growth rate applied to the cash flow projection is 32.3% and 3%, respectively. The cash flows beyond the 5-year-period are extrapolated using a steady growth rate of 2.7% per annum. The directors of the Company are of the opinion, based on the recoverable amount, there is no impairment on the mining rights for the year ended March 31, 2010.

The key assumptions for the fair value calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on management's expectations for the market development.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 17. GOODWILL

	HK\$'000
<hr/>	
COST	
Arising on acquisition of subsidiaries and balance at	
March 31, 2009, as previously stated	369,535
Adjustment to provisional fair values ( <i>note 3</i> )	(342,450)
<hr/>	
At 1 April 2009, as restated, and at March 31, 2010	27,085
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As described in note 3, the management of the Group has finalised the assessment of fair value of the assets and liabilities of Park Wealth Group acquired and the Convertible Preference Shares. As a result, the fair value of Convertible Preference Shares was assessed to be HK\$41,170,000 such that the goodwill which arose from acquisition of Park Wealth Group has been adjusted to HK\$27,085,000. The aforesaid adjustment has been adjusted accordingly in the consolidated statement of financial position as at March 31, 2009.

Goodwill arise from acquisition of a business combination is allocated, at acquisition, to the CGU related to that business combination. The carrying amount of goodwill at the end of reporting period is as follow:

	2010 HK\$'000
<hr/>	
Direct drinking water segment	27,085
<hr/>	

Details of the impairment testing are set out in note 18.

## 18. IMPAIRMENT TESTING OF GOODWILL

During the year ended March 31, 2010, management of the Group determines that there is no impairment in relation to goodwill arising on acquisition of the Park Wealth Group. For the purpose of impairment testing, goodwill set out in note 17 has been allocated to one individual CGU, which is engaged in leasing of direct drinking water purification machines and receipt of royalty income for use of the Group's brand name. The carrying amount of goodwill as at March 31, 2010 allocated to this CGU is HK\$27,085,000

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses the estimation of the cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 22.5%. The cash flows beyond the 5-year-period are extrapolated using a steady growth rate of 12% per annum. This growth rate is based on the relevant growth forecasts and does not exceed long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 19. INVENTORIES

	2010 HK\$'000	2009 HK\$'000
Raw materials	1,876	4,879
Work in progress	–	409
Finished goods	72	177
	<b>1,948</b>	5,465

## 20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2010 HK\$'000	2009 HK\$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profit less recognised losses	45,215	25,790
Less: Progress billings	(36,168)	(29,237)
	<b>9,047</b>	(3,447)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	11,296	4,520
Amounts due to customers for contract work	(2,249)	(7,967)
	<b>9,047</b>	(3,447)

At March 31, 2010 and 2009, there were no retention monies held by customers for contract work performed. At March 31, 2010, advances received from customers for contract work amounted to approximately HK\$5,463,000 (2009: HK\$6,403,000) which were included in trade and other payables as the work has not been commenced.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 21. TRADE AND OTHER RECEIVABLES

	2010 HK\$'000	2009 HK\$'000
Trade receivables	14,312	16,098
Advances to suppliers	21,637	–
Other receivables	1,180	875
Receivables in respect of sales of direct drinking water purification machines (Note)	39,761	–
Prepayments and deposits	2,064	7,676
	<b>78,954</b>	24,649

	2010 HK\$'000	2009 HK\$'000
Analysis of trade and other receivables for reporting purposes as:		
– Non-current asset in respect of sales of direct drinking water purification machines which were classified as property, plant and equipment	14,168	–
– Non-current asset in respect of sales of direct drinking water purification machines which were classified as inventories	13,512	–
– Current asset	51,274	24,649
	<b>78,954</b>	24,649

Note: The receivables from sales of direct drinking water purification machines includes an amount of approximately HK\$21,689,000 in relation to the disposal of property, plant and equipment as disclosed in note 9.

The Group also sold additional drinking water purification machines to the Agents, which were classified as inventories, with similar repayment term for disposal of drinking water purification machines which were classified as property, plant and equipment. The amount is payable in interest free instalments over a period of five years. The corresponding receivables as at March 31, 2010 was approximately HK\$18,072,000. The receivables from sales of direct drinking water purification machines not recoverable within one year from the end of the reporting period are classified as non-current and measured at amortised cost using the average effective interest method at the rate of 5.76% per annum.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 21. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables of the Group net of allowance for doubtful debts presented based on invoice date at the end of the reporting period:

	2010 HK\$'000	2009 HK\$'000
0 to 30 days	11,496	7,278
31 to 90 days	1,970	2,356
91 to 180 days	6,658	826
181 to 365 days	7,415	5,328
Over 1 year	285	310
	<b>27,824</b>	16,098

Other than cash sales, the Group generally allows an average credit period of 30 days to 180 days to its trade customers.

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits of each customer. Limits attributed to customers are reviewed once a year. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due.

At March 31, 2010, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK\$2,697,000 (2009: HK\$6,405,000) which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

### Ageing of trade receivables which are past due but not impaired

	2010 HK\$'000	2009 HK\$'000
31 to 90 days	–	692
91 to 180 days	37	75
181 to 365 days	2,375	5,328
Over 1 year	285	310
	<b>2,697</b>	6,405

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 21. TRADE AND OTHER RECEIVABLES (Continued)

### Movement in the allowance for doubtful debts in respect of trade receivables

	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	1,689	–
Impairment losses recognised	5,309	1,689
Impairment losses reversed	(1,079)	–
Balance at end of the year	5,919	1,689

At March 31, 2010, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$5,919,000 (2009: HK\$1,689,000) where the debtors have been in severe financial difficulties.

## 22. BANK BALANCES AND CASH

As at March 31, 2010, bank balances and cash comprise cash held by the Group and short-term bank deposits which carry prevailing market interest rate of 0.31% (2009: 1.95%) per annum with an original maturity of three months or less.

At the end of the reporting period, included in the bank balances and cash are following amount denominated in currency other than the functional currency of the respective group entity:

	2010 HK\$'000	2009 HK\$'000
USD	23,932	96,194
HKD	53,322	47,821
	77,254	144,015



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 23. TRADE AND OTHER PAYABLES

	2010 HK\$'000	2009 HK\$'000
Trade payables	10,265	19,594
Bills payable	154	1,705
Other payables	7,348	7,643
Other tax payables	17,018	8,675
Receipt in advance from customers	8,250	9,518
Accruals	3,721	1,966
	<b>46,756</b>	<b>49,101</b>

Trade payables principally comprise amounts outstanding for purchase of raw materials and ongoing expenses. The average credit period for purchase of raw materials ranged from 30 days to 180 days.

The following is an aged analysis of trade payables and bills payable presented based on invoice date:

	2010 HK\$'000	2009 HK\$'000
0 – 30 days	4,858	14,906
31 – 90 days	3,154	4,330
91 – 180 days	1,405	1,565
181 – 365 days	708	154
Over 1 year	294	344
	<b>10,419</b>	<b>21,299</b>

## 24. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	2010 HK\$'000	2009 HK\$'000
Xiao Shu (肖述)	23,464	25,255

Xiao Shu is a director and former shareholder of Shanghai Comfort, a subsidiary of the Company acquired during the year ended March 31, 2009.

The amount represents the advance which is non-trade nature.

The amount is interest free, unsecured and repayable on demand.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 25. BORROWINGS

As at March 31, 2010 and 2009, the amount represents unsecured fixed-rate loans with interest at 12% per annum from an independent third party with maturity period not exceeding one year.

## 26. WARRANTY PROVISION

	HK\$'000
At April 1, 2008	–
Acquisition of business ( <i>note 34(b)</i> )	823
Provided for the year	405
Amount utilised	(278)
At March 31, 2009 and April 1, 2009	950
Provided for the year	834
Amount utilised	(503)
<b>At March 31, 2010</b>	<b>1,281</b>

The provision for warranty claims represents the director's best estimate of the future outflow of economic benefits that will be required under the Group's warranty program for sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system for two to three years. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials and altered manufacturing processes.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 27. DEFERRED INCOME

	Rental income HK\$'000	Royalty fee income HK\$'000	Total HK\$'000
At April 1, 2008	–	–	–
Acquisition of business (note 34(b))	27,502	–	27,502
Exchange adjustments	(18)	–	(18)
Additions	12,294	–	12,294
Released to revenue for the year (note 8)	(6,739)	–	(6,739)
At March 31, 2009 and April 1, 2009	33,039	–	33,039
Exchange adjustments	101	1	102
Additions	50,271	716	50,987
Released to revenue for the year (note 8)	(44,346)	(143)	(44,489)
Released to other income for the year (note 9)	(8,549)	–	(8,549)
<b>At March 31, 2010</b>	<b>30,516</b>	<b>574</b>	<b>31,090</b>
		<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
Analysed for reporting purposes as:			
Current portion		<b>7,238</b>	28,135
Non-current portion		<b>23,852</b>	4,904
		<b>31,090</b>	33,039

Deferred income includes: (a) rental received in advance for direct drinking water purification machines. The amount is released to profit or loss based on a straight line basis over the relevant lease terms and rental are fixed and pre-determined or based on the volume of water purified by the direct drinking water purification machines; and (b) royalty fees received in advance for the operation of the direct drinking water purification machines business in certain specific locations and within a specified time period. The amount will be released to profit or loss on a straight line basis over the relevant contract period.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 28. DEFERRED TAXATION

A summary of the deferred tax liabilities recognised and movement thereon during the current and prior year is as follows:

	Revaluation of patents arising from acquisition of business HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At April 1, 2008	–	19	19
Acquisition of business ( <i>note 34(b)</i> )	23,500	–	23,500
Credit to the profit or loss	(627)	(19)	(646)
At March 31, 2009 and April 1, 2009	22,873	–	22,873
Credit to the profit or loss	(16,123)	–	(16,123)
<b>At March 31, 2010</b>	<b>6,750</b>	<b>–</b>	<b>6,750</b>

At the end of the reporting period, the Group has the following unused tax losses that can be carried forward to future years. Their respective expiration years are as follows:

Expiry year	2010 HK\$'000	2009 HK\$'000
2010	–	394
2011	624	3,616
2012	2,931	11,331
2013	14,298	24,045
2014	8,573	8,672
2015	749	–
No expiry	39,469	39,394
	<b>66,644</b>	<b>87,452</b>

No deferred tax asset has been recognised in respect of unused tax losses available for offset against future profits due to unpredictability of future profit streams.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 29. CONVERTIBLE BONDS

On December 24, 2007, the Company issued zero coupon convertible bonds at par denominated in HKD in an aggregate principal amount of HK\$124,500,000 to a substantial shareholder of the Company namely Long Grand Limited ("Subscription Bond") and HK\$60,000,000 to outsiders ("Placing Bond") (collectively known as the "Convertible Bonds"). The Convertible Bonds will mature on the second anniversary of the date of issue of the Convertible Bonds, December 24, 2009. The Convertible Bonds entitle the holders to convert them into ordinary shares ("Conversion Shares") of the Company at any time between the date of issue of the Convertible Bonds and their maturity date on December 24, 2009 at a conversion price of HK\$0.15 per share subject to adjustments for subdivision or consolidation of shares, bonus issues, rights issues, distributions and other dilutive events. If the Convertible Bonds have not been converted, they would be redeemed on December 24, 2009 at their principal amount. The Convertible Shares shall at all times rank equally among themselves and *pari passu* with all other shares of the Company in issue with respect of the right to any dividends or distributions declared.

Other principal terms of the Convertible Bonds:

Upon the Convertible Bonds holders exercising the conversion rights attached to the Convertible Bonds, the Company shall issue warrants to subscribe for new ordinary shares of the Company at a subscription price of HK\$0.15 exercisable anytime from the date of issue of the warrant to the date falling on the first anniversary of the date of issue of the warrant (in the proportion of one warrant for every four Conversion Shares) (the "Warrants") by way of bonus issue to the holders of the Convertible Bonds. The subscription price of the Warrants is HK\$0.15 per share, subject to adjustments for subdivision or consolidation of shares, right issues and other dilutive events which may have adverse effects on the rights of the holder(s) of the Warrants.

The Company can early redeem the Convertible Bonds at any time before the maturity of the Convertible Bonds at 100% of the principal amount of the Convertible Bonds.

The net proceeds received from the issue of Convertible Bonds contain the following components that are required to be separately accounted for:

- (i) The fair value of the liability component for the Convertible Bonds represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the Convertible Bonds, but without the conversion option. The effective interest rate of the liability component is 7.95%.
- (ii) Embedded derivatives, comprising:
  - (a) The fair value of redemption discretionary option derivatives represents the Company's option to early redeem all or part of the Convertible Bonds; and
  - (b) The fair value of conversion option derivatives represent the option of the bondholders to convert the Convertible Bonds into ordinary shares of the Company at conversion price of HK\$0.15 and into Warrants by way of bonus issue for every four Conversion Shares with exercise price of HK\$0.15.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 29. CONVERTIBLE BONDS (Continued)

On May 14, 2009, 400,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to the Convertible Bonds holders upon their conversion of the Placing Bond in the aggregate principal amount of HK\$60,000,000. In addition, 400,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to Long Grand Limited upon its conversion of the Subscription Bond in the principal amount of HK\$60,000,000 on May 14, 2009. In accordance with the terms and conditions of Placing Bond and the Subscription Bond, upon exercising the conversion rights attaching to the Placing Bond and the Subscription Bond on May 14, 2009, on the same day, the Company issued by way of bonus 100,000,000 warrants to Long Grand Limited and an aggregate of 100,000,000 warrants to holders of the Conversion Shares.

On June 29, 2009, 430,000,000 Conversion Shares at the conversion price of HK\$0.15 were issued to Long Grand Limited upon their conversion of the Subscription Bond in the aggregate principal amount of HK\$64,500,000. In accordance with the terms and conditions of the Subscription Bond, upon exercising the conversion rights attaching to the Subscription Bond on June 29, 2009, on the same day, the Company issued by way of bonus 107,500,000 warrants to Long Grand Limited.

The binomial model is used in the valuation of the embedded conversion option derivatives as at the reporting period date. The value of the issuer's redemption option was estimated using the "with and without approach", whereby the value of the redemption option is determined as the difference between the value of optional conversion option without the issuer's redemption option and the value of the optional conversion option with the issuer's redemption option. Inputs into the model at the reporting period date are as follows:

March 31, 2009

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Risk Free Rate of interest	0.31%
Credit Spread	11.40%
Risk Premium	3.88%
Discount Rate	15.05%
Conversion Price	HK\$0.15
Spot Price	HK\$1.80
Volatility	121.58%

The fair value of the embedded derivatives of the Convertible Bonds at respective dates of conversion is determined with reference to the fair value of the Conversion Shares and Warrants issued upon conversion.



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 29. CONVERTIBLE BONDS (Continued)

The movements of the liability component and the embedded derivatives in the Convertible Bonds during the year are set out below:

	<b>Liability</b> HK\$'000	<b>Embedded derivatives</b> HK\$'000	<b>Total</b> HK\$'000
At 1 April 2008	160,209	22,231	182,440
Imputed interest charged	12,593	–	12,593
Change in fair value	–	(2,566)	(2,566)
At March 31, 2009 and April 1, 2009	172,802	19,665	192,467
Imputed interest charged	2,241	–	2,241
Change in fair value	–	4,324,025	4,324,025
Conversion of convertible bonds into ordinary shares	(175,043)	(4,343,690)	(4,518,733)
<b>At March 31, 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>

During the year, all Convertible Bonds were converted into ordinary shares of the Company.

## 30. DERIVATIVE WARRANT LIABILITIES

As disclosed in note 29, the Company issued by way of bonus 100,000,000 Warrants to Long Grand Limited and an aggregate of 100,000,000 Warrants to the holders of the Placing Bonds upon their conversion of the Convertible Bonds on May 14, 2009. In addition, the Company issued by way of bonus 107,500,000 Warrants to Long Grand Limited upon its conversion of the Convertible Bonds on June 29, 2009 resulting in a total of 307,500,000 Warrants issued after the full conversion of the Convertible Bonds.

Subsequently on July 31, 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each, respectively. Pursuant to the terms and conditions of the instrument dated December 24, 2007 constituting the Warrants, the subscription price of the Warrants was adjusted from HK\$0.15 per ordinary share to HK\$0.015 per subdivided share as a result of the share subdivision. On July 31, 2009, the number of shares of the Company to be issued upon exercise of the Warrants was also adjusted from 307,500,000 ordinary shares to 3,075,000,000 subdivided shares as a result of the share subdivision.

From September 30, 2009 to November 27, 2009, the Company allotted and issued 3,075,000,000 shares and received cash of HK\$46,125,000 upon exercise of the Warrants issued during the year.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 30. DERIVATIVE WARRANT LIABILITIES (Continued)

The fair value of the warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follow:

	November 27, 2009	November 20, 2009	November 17, 2009	November 12, 2009	November 11, 2009	November 6, 2009	October 9, 2009	September 30, 2009	June 29, 2009	May 14, 2009
	Lot 1 (note)	Lot 1 (note)	Lot 1 (note)	Lot 1 (note)	Lot 1 (note)	Lot 1 (note)	Lot 1 (note)	Lot 1 (note)	Lot 2 (note)	Lot 1 (note)
Exercise price	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015	HK\$0.015
Share price	HK\$1.06	HK\$1.06	HK\$1.11	HK\$1.16	HK\$1.11	HK\$1.15	HK\$1.14	HK\$1.22	HK\$0.505	HK\$0.185
Expected volatility	109.684%	108.844%	109.359%	108.047%	107.684%	106.804%	108.982%	110.722%	118.579%	109.301%
Remaining life	5.5 months	5.8 months	5.9 months	6.0 months	6.0 months	6.2 months	7.1 months	9 months	1 Year	1 Year
Risk free rate	0.107%	0.108%	0.109%	0.093%	0.093%	0.103%	0.139%	0.19%	0.11%	0.17%

Notes: Lot 1 and Lot 2 refers to the 2,000,000,000 Warrants and 1,075,000,000 Warrants issued on May 14, 2009 and June 29, 2009 (after adjustment for share subdivision), respectively, and the dates shown above represent the date of exercise of Warrants.

The movements of derivative warrant liabilities during the year is set out below:

	HK\$'000
At April 1, 2008 and March 31, 2009	-
Fair value of warrants granted during the year	867,233
Change in fair value	2,727,689
Share issued upon exercise of warrants	(3,594,922)

**At March 31, 2010**

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# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 31. NON-VOTING CONVERTIBLE PREFERENCE SHARES

The Convertible Preference Shares to be issued by the Company for the acquisition of the Park Wealth Group with a par value of HK\$0.001 each (after adjustment for share subdivision) can be converted into ordinary shares without maturity date. The conversion price is fixed at HK\$0.4 per ordinary share (after adjustment for share subdivision). The Convertible Preference Shares shall at all times rank equally among themselves and *pari passu* with all other ordinary shares of the Company in issue with respect of the right to any dividends or distributions declared.

The following are the other major terms of the Convertible Preference Shares:

In the event of liquidation or dissolution or winding up, or merger, or reorganisation that will result in any distribution of assets of the Company to the existing shareholders of the Company, the holders of the Convertible Preference Shares will receive an amount equal to 100% of the face value of the Convertible Preference Shares. In addition, the ranking of the Convertible Preference Shares is higher than ordinary shares, but lower than creditor in case of liquidation.

The holder of each Convertible Preference Shares shall not have any voting rights. The Convertible Preference Shares shall be non-redeemable and will not be listed on any stock exchange.

On February 12, 2009, the Group acquired the Park Wealth Group pursuant to the agreement dated October 11, 2008 (the "Agreement") entered into between Successtime Limited, a wholly owned subsidiary of the Company and the then shareholders of Park Wealth International Limited. According to the Agreement, the Group shall issue 2,000,000,000 Convertible Preference Shares within 10 business days of the finalisation of the audited consolidated net profit after tax of the Park Wealth Group for the year ending December 31, 2009 provided that such audited consolidated net profit after tax of the Park Wealth Group will not be less than HK\$100,000,000 (the "Audited Profit"). If the Audited Profit of the Park Wealth Group is less than the HK\$100,000,000 (the "Guaranteed Profit"), the number of Convertible Preference Shares to be issued shall be in accordance with the formula below:

$$\text{Number of shares to be issued} = \frac{\text{Audited Profit}}{\text{Guaranteed Profit}} \times 2,000,000,000$$

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 31. NON-VOTING CONVERTIBLE PREFERENCE SHARES (Continued)

The following are the other major terms of the Convertible Preference Shares: (Continued)

During the year ended March 31, 2010, the management has finalised the fair value of the Convertible Preference Shares based on the estimated Audited Profit of the Park Wealth Group for the year ended December 31, 2009. The final number of Convertible Preference Shares estimated to be issued is 214,637,160 as disclosed in note 41 and the fair value of Convertible Preference Shares issued was HK\$41,170,000. The Audited Profit has been prepared by the management on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group.

The holders of the Convertible Preference Shares shall be entitled to convert the Convertible Preference Shares into ordinary shares in the following manner:

- (i) Up to 40% of the Convertible Preference Shares anytime during the period commencing from the first business day following the second anniversary of the date of completion of the Agreement until the third anniversary of the date of completion of the Agreement;
- (ii) Up to 70% of the Convertible Preference Shares anytime during the period commencing from the first business day following the third anniversary of the date of completion of the Agreement until the fourth anniversary of the completion of the Agreement;
- (iii) All the remaining convertible shares anytime after the first business day following the fourth anniversary of the date of completion of the Agreement.

The holder of the Convertible Preference Shares shall not exercise the conversion rights and the Company shall not issue any shares if, upon such conversion and/or issue, (i) the holder of the Convertible Preference Shares and the parties acting in concert with it, will be interested in 30% (or such amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued ordinary share capital of the Company on the relevant conversion date, or (ii) the shareholding in the Company held by the public will be less than 25% or the minimum prescribed percentage as set out in the Rules Governing the Listing of Securities on the Stock Exchange from time to time.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 32. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At April 1, 2008 of HK\$0.01 each	50,000,000,000	500,000
Designated as non-voting Convertible Preference Shares ( <i>Note (i)</i> )	(200,000,000)	(2,000)
At March 31, 2009 of HK\$0.01 each	49,800,000,000	498,000
Share subdivision ( <i>Note (ii)</i> )	448,200,000,000	–
At March 31, 2010 of HK\$0.001 each	498,000,000,000	498,000
Non-voting Convertible Preference Shares		
Designated from ordinary share during the year and balance at March 31, 2009 of HK\$0.01 each	200,000,000	2,000
Share subdivision ( <i>Note (ii)</i> )	1,800,000,000	–
At March 31, 2010 of HK\$0.001 each	2,000,000,000	2,000
Issued and fully paid:		
At April 1, 2008 and March 31, 2009 of HK\$0.01 each	337,031,016	3,370
Conversion of convertible bonds into ordinary shares	1,230,000,000	12,300
Share subdivision	14,103,279,144	–
Shares issued on exercise of share options	6,000,000	6
Exercise of warrants	3,075,000,000	3,075
Issue of shares on acquisition of assets and liabilities ( <i>note 34(a)</i> )	73,125,000	73
At March 31, 2010 of HK\$0.001 each	18,824,435,160	18,824

*Notes:*

- (i) Pursuant to the Special General Meeting held on February 11, 2009, the Company created and designated 200,000,000 shares of HK\$0.01 each in the authorised share capital of the Company as non-voting Convertible Preference Shares.
- (ii) On July 31, 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each respectively.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 33. CONTRIBUTED SURPLUS

The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the group reorganisation on May 25, 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction taken place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

## 34. ACQUISITION OF SUBSIDIARIES

### (a) Acquisition of assets and liabilities through acquisition of subsidiaries

*For the year ended March 31, 2010*

On November 20, 2009, Pride Delight Limited, a wholly-owned subsidiary of the Company, acquired the assets and liabilities of a mine through the acquisition of 90% equity interests in Eagle Mountain Group from an independent third party ("Vendor") at a consideration of approximately HK\$139,913,000, of which approximately HK\$77,513,000 was satisfied by the allotment and issue of 73,125,000 shares of the Company ("Consideration Shares") to the Vendor at the market price of HK\$1.06 at date of completion, and HK\$62,400,000 was satisfied by the payment of cash.

The above transaction was accounted for as purchase of assets and liabilities as the Eagle Mountain Group does not have any business activities except for holding an undeveloped mining rights. Details of the net assets acquired in respect of the above transaction are summarised below:

	<b>HK\$'000</b>
Net assets acquired	
Intangible assets	<b>153,008</b>
Bank balances and cash	<b>337</b>
Other payables	<b>(7,072)</b>
	<b>146,273</b>
Minority interests	<b>(6,360)</b>
	<b>139,913</b>
Total consideration	<b>139,913</b>
Satisfied by:	
Cash	<b>62,400</b>
Consideration Shares	<b>77,513</b>
	<b>139,913</b>
Net cash outflow arising on acquisition	
Cash consideration paid	<b>(62,400)</b>
Bank balances and cash acquired	<b>337</b>
	<b>(62,063)</b>



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 34. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) Acquisition of business

#### For the year ended March 31, 2009

On February 12, 2009, the Group acquired 100% equity interests in Park Wealth Group from independent third parties. Park Wealth Group is principally engaged in the business of leasing of direct drinking water purification machines, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system. This acquisition has been accounted for using the purchase method. The goodwill on acquisition was approximately HK\$27,085,000 as disclosed in note 3.

The assets and liabilities of the Park Wealth Group at the date of acquisition, upon the completion of the acquisition accounting as described in note 3, are as follows:

	Carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
Net liabilities acquired			
Property, plant and equipment	85,522	–	85,522
Intangible assets	–	94,000	94,000
Inventories	5,170	–	5,170
Amounts due from customers for contract work	2,596	–	2,596
Trade and other receivables	29,331	–	29,331
Bank balances and cash	12,937	–	12,937
Amounts due to customers for contract work	(11,216)	–	(11,216)
Trade and other payables	(30,954)	–	(30,954)
Amount due to a related party	(25,281)	–	(25,281)
Borrowings	(89,075)	–	(89,075)
Tax payable	(2,788)	–	(2,788)
Deferred tax liability	–	(23,500)	(23,500)
Warranty provision	(823)	–	(823)
Deferred income	(27,502)	–	(27,502)
	(52,083)	70,500	18,417
Goodwill as restated ( <i>note 3</i> )			27,085
			45,502
Total cost of investment:			
Transaction cost of acquisition			4,332
Convertible Preference Shares as restated ( <i>note 3</i> )			41,170
			45,502
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			12,937
Transaction cost of acquisition			(4,332)
			8,605

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 34. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) Acquisition of business (Continued)

The consideration for the acquisition has taken into account the benefits of the expected revenue growth and future market development of the Park Wealth Group. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The Park Wealth Group contributed loss of approximately HK\$8,049,000 to the Group's loss for the period between the date of acquisition and March 31, 2009. Had the acquisition been completed on April 1, 2008, total group revenue would have been approximately HK\$109,506,000 and loss would have been approximately HK\$91,356,000.

The above pro forma information is for illustrative purposes only and is not necessarily indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on April 1, 2008, nor is it intended to be a projection of future results.

## 35. OPERATING LEASE COMMITMENTS

### The Group as lessee

The Group made minimum lease payments of approximately HK\$2,605,000 (2009: HK\$2,029,000) under operating leases during the year in respect of rented premises and office equipments.

At the end of the reporting period, the Group had commitments for future minimum lease payments of under non-cancellable operating leases which fall due as follows:

	2010		2009	
	Rented premises HK\$'000	Office equipment HK\$'000	Rented premises HK\$'000	Office equipment HK\$'000
Within one year	1,550	16	6,478	16
In the second to fifth years inclusive	87	30	6,250	46
	<b>1,637</b>	<b>46</b>	12,728	62

Leases are negotiated for a term of 1 to 5 years with fixed rentals.

### The Group as lessor

The Group received minimum lease payments of approximately HK\$25,380,000 (2009: HK\$3,857,000) under operating leases during the year in respect of certain direct drinking water purification machines. In addition, the Group also has arrangement with the lessees of the direct drinking water purification machines whereby the rental is charged based on the volume of water purified. During the year ended March 31, 2010, the contingent rental income amounted to approximately HK\$18,966,000 (2009: HK\$2,882,000)

At the end of the reporting period, the Group had contracted with tenants for future minimum lease payments which falls within one year of approximately HK\$37,232,000 (2009: HK\$17,237,000).

Leases are negotiated for an average term of one year.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 36. CAPITAL COMMITMENTS

	2010 HK\$'000	2009 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	–	522

## 37. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on September 17, 2004 pursuant to a resolution passed by the Company's shareholders on September 17, 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on September 16, 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK\$1 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme at the date of adoption. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK\$1 per option by the grantee.

The exercisable period of an option is determined by the directors at their discretion. The expiry date of the option may be determined by the Board of Directors of the Company which shall not be later than the expiry day of the Scheme.

The exercise price is determined by the directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

On July 31, 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary Shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK\$0.001 each respectively. Pursuant to the terms and conditions of the Scheme and the requirements of Chapter 17 of the Listing Rules, the exercise price of the share options granted under the Scheme would be adjusted from HK\$5.32 per Ordinary Share to HK\$0.532 per subdivided share while the number of shares of the Company to be allotted and issued upon exercise of the subscription rights attaching to the share options would be adjusted from 8,400,000 ordinary shares to 84,000,000 subdivided ordinary shares as a result of the share subdivision. The total number of shares to be issued upon the exercise of all options granted under the Scheme is 66,000,000 as at March 31, 2010.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 37. SHARE OPTION SCHEME (Continued)

Details of the share options granted, exercised, and lapsed under the Scheme during the years ended March 31, 2010 and 2009 are as follows:

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting period	At April 1, 2009	Granted during the year	Exercised during the year	Lapsed during the year	At March 31, 2010
Directors	July 17, 2008	HK\$0.532	7/17/2008 – 9/16/2014	N/A	12,000,000	-	(3,000,000)	(3,000,000)	6,000,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	12,000,000	-	(3,000,000)	(3,000,000)	6,000,000
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	12,000,000	-	-	(6,000,000)	6,000,000
					36,000,000	-	(6,000,000)	(12,000,000)	18,000,000
Employees	July 17, 2008	HK\$0.532	7/17/2008 – 9/16/2014	N/A	15,999,980	-	-	-	15,999,980
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	16,000,010	-	-	-	16,000,010
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	16,000,010	-	-	-	16,000,010
					48,000,000	-	-	-	48,000,000
Exercisable at the end of the year									43,999,990
Weighted average share price at date of exercise									1.22

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 37. SHARE OPTION SCHEME (Continued)

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting period	At April 1, 2008	Granted during the year	Exercised during the year	Lapsed during the year	At March 31, 2009
Directors	July 17, 2008	HK\$0.532	7/17/2008 – 9/16/2014	N/A	-	12,000,000	-	-	12,000,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	-	12,000,000	-	-	12,000,000
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	-	12,000,000	-	-	12,000,000
<hr/>									
Employees	July 17, 2008	HK\$0.532	7/17/2008 – 9/16/2014	N/A	-	15,999,980	-	-	15,999,980
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	-	16,000,010	-	-	16,000,010
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	-	16,000,010	-	-	16,000,010
<hr/>									
Exercisable at the end of the year						48,000,000	-	-	48,000,000
									27,999,980

The share price of the Company immediately before July 17, 2008 the date of grant of the options, was HK\$0.52 after adjustment for the share subdivision.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 37. SHARE OPTION SCHEME (Continued)

The inputs into the model are as follows:

July 17, 2008

Exercise price	HK\$0.532 (Note)
Expected volatility	80.04% – 82.18%
Expected life	3.08 years – 4.08 years
Risk-free rate	2.66% – 2.98%
Expected dividend yield	4.48%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions.

The estimated fair value of the options at the date of grant on July 17, 2008 was approximately HK\$20,564,000. The Group recognised a total share-based compensation expense of HK\$4,629,000 for the year ended March 31, 2010 (2009: HK\$13,900,000) in relation to share options granted by the Company.

Note: The market price and exercise price were adjusted for the share subdivision made during the year ended March 31, 2010.

## 38. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes lower of 5% of relevant payroll costs or HK\$1,000 per person to the Scheme, which is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC Government. The Company's subsidiary is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

## 39. RELATED PARTY TRANSACTIONS

Other than the convertible bonds and derivative warrant liabilities disclosed in notes 29 and 30, the Group has the following transactions with related parties during the year:

	2010 HK\$'000	2009 HK\$'000
Rental charges paid to a related company (note)	–	998

Note: Mr. Ling Tai Yuk, John, a director of a subsidiary controls and has beneficial interests in this related company.

The compensation to key management of the Group, which represented by the directors of the Company, are disclosed in note 13.



# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities	Legal from
			2010 %	2009 %		
<i>Directly held</i>						
Surplus Rich Investments Limited	The BVI Hong Kong	US\$1	100	100	Management service to group companies	Private limited liability company
Successtime Limited	The BVI Hong Kong	US\$1	100	100	Investment holding	Private limited liability company
<i>Indirectly held</i>						
Park Wealth International Limited	The BVI Hong Kong	US\$1	100	100	Investment holding	Private limited liability company
Eagle Mountain Holdings Limited	The BVI Hong Kong	US\$100	90	–	Investment holding	Private limited liability company
Tunlin Limited Liability Company	Republic of Kyrgyzstan	KGS5,000	90	–	Investment holding	Limited liability company
Kichi-Chaarat Closed Joint Stock Company	Republic of Kyrgyzstan	KGS10,000	90	–	Mining, processing and sales of gold and copper	Limited liability company
上海康福特環境科技有限公司 Shanghai Comfort Environment and Science Company Limited*	The PRC	RMB46,000,000	100	100	Manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system	Limited liability company

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities	Legal form
			2010 %	2009 %		
<i>Indirectly held (Continued)</i>						
上海康福特水業發展有限公司 Shanghai Comfort Water Development Company Limited*	The PRC	RMB3,000,000	100	100	Leasing of direct drinking water purification machines and water purification service, sales of air purification and water purification equipments	Limited liability company
成都康福特水業有限責任公司 Chengdu Comfort Water Company Limited*	The PRC	RMB500,000	100	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company
深圳康福特環保技術發展有限公司 Shenzhen Comfort Environment Protection Technology Development Company Limited*	The PRC	RMB1,000,000	100	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company
上海康福特環保工程安裝有限公司 Shanghai Comfort Environment Engineering Company Limited*	The PRC	RMB5,100,000	100	100	Construction and installation of air purification and sewage treatment system	Limited liability company
上海康福特淨水有限公司 Shanghai Comfort Jing Shui Company Limited*	The PRC	RMB100,000	100	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company
上海康誠和空氣淨化設備有限公司 Shanghai Kang Cheng He Air Purification Equipment Company Limited*	The PRC	RMB500,000	100	100	Construction installation of air purification and sewage treatment system	Limited liability company
北京康福特康潔水業有限公司 Beijing Comfort Kang Jie Water Company Limited*	The PRC	RMB500,000	100	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company

\* The English name is for identification purpose only.

# Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Company with limited liability, except for otherwise denoted, which, in the opinion of the directors, principally affected the results of 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.

## 41. EVENT AFTER THE REPORTING PERIOD

On July 16, 2010, the consideration of the acquisition of the Park Wealth Group and the aggregate fair value of the Convertible Preference Shares was finalised to be HK\$41,170,000, which should be satisfied by the issuance of an aggregate of 214,637,160 adjusted Convertible Preference Shares by the Company to the vendors of Park Wealth Group.

## 42. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 HK\$'000	2009 HK\$'000 (Restated)
Total assets	<b>402,770</b>	285,807
Total liabilities	<b>2,007</b>	193,746
Net assets	<b>400,763</b>	92,061
Capital and reserves		
Share capital	<b>18,824</b>	3,370
Reserves	<b>381,939</b>	88,691
Total equity	<b>400,763</b>	92,061

Loss of the Company for the year ended March 31, 2010 amounted to approximately HK\$7,069,180,000 (2009: HK\$23,975,000).

# Five Years Financial Summary

## RESULTS

	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	<b>107,700</b>	60,533	178,096	161,850	152,761
(Loss) profit before taxation	<b>(7,121,518)</b>	(53,164)	13,669	15,897	12,277
Income tax credit (expenses)	<b>13,133</b>	627	(1,426)	(1,341)	(1,225)
(Loss) profit for the year	<b>(7,108,385)</b>	(52,537)	12,243	14,556	11,052
Attributable to					
Owners of the Company	<b>(7,107,864)</b>	(52,537)	12,243	14,556	11,052
Minority interests	<b>(521)</b>	–	–	–	–
	<b>(7,108,385)</b>	(52,537)	12,243	14,556	11,052

## ASSETS AND LIABILITIES

	2010 HK\$'000	2009 HK\$'000 (Restated)	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
Total assets	<b>472,243</b>	415,978	307,795	104,896	89,202
Total liabilities	<b>(123,458)</b>	(343,510)	(237,872)	(18,457)	(12,794)
	<b>348,785</b>	72,468	69,923	86,439	76,408
Equity attributable to owners of the Company	<b>342,899</b>	72,468	69,923	86,439	76,408
Minority interests	<b>5,886</b>	–	–	–	–
	<b>348,785</b>	72,468	69,923	86,439	76,408