ANNUAL REPORT 2011

LONG SUCCESS
百齡國際

# LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED

*(incorporated in Bermuda with limited liability)*

(Stock Code:8017)

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this annual report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which the directors (the "Directors") of Long Success International (Holdings) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Wong Kam Leong *(Chairman)*
Mr. Hu Dongguang *(Chief Executive Officer)*
Mr. Wu Bingxiang
Dr. Guo Wanda

### Independent Non-Executive Directors

Mr. Ng Kwok Chu, Winfield
Mr. Ng Chau Tung, Robert
Mr. Tse Ching Leung
Mr. Wang Qingyi

## COMPANY SECRETARY

Mr. Yeung Shun Kee

## COMPLIANCE OFFICER

Mr. Wong Kam Leong

## AUTHORISED REPRESENTATIVES

Mr. Wong Kam Leong
Mr. Hu Dongguang

## AUDIT COMMITTEE

Mr. Ng Kwok Chu, Winfield *(Chairman)*
Mr. Ng Chau Tung, Robert
Mr. Tse Ching Leung

## NOMINATION COMMITTEE

Mr. Ng Kwok Chu, Winfield *(Chairman)*
Mr. Ng Chau Tung, Robert
Mr. Tse Ching Leung

## REGISTERED OFFICE

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Hamilton HM 12
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Sheung Wan, Hong Kong

## BERMUDA PRINCIPAL REGISTRAR

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Argyle House, 41A Cedar Avenue
Hamilton HM 12, Bermuda

## HONG KONG BRANCH SHARE REGISTRAR

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## AUDITORS

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## HONG KONG LEGAL ADVISOR

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Angela Ho & Associates
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89 Queensway, Central,
Hong Kong

## FINANCIAL ADVISER

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2601, Tower 2, Lippo Centre
89 Queensway, Central, Hong Kong

## PROFESSIONAL SURVEYOR

LCH (Asia-Pacific) Surveyors Limited
17/F., Champion Building, Nos.287-291
Des Voeux Road Central, Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank Limited
Wing Hang Bank Limited

# FINANCIAL HIGHLIGHTS

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years.

## CONSOLIDATED RESULTS

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **288,970** | 159,432 | 12,778 | 25,424 | 35,432 |
| Loss attributable to owners of the company | **(26,870)** | (45,026) | (37,604) | (43,710) | (5,992) |

## CONSOLIDATED ASSETS AND LIABILITIES

| | As of 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **866,235** | 483,188 | 114,979 | 130,057 | 74,312 |
| Total liabilities | **(364,556)** | (290,693) | (9,941) | (8,998) | (44,653) |
| Net assets | **501,679** | 192,495 | 105,038 | 121,059 | 29,659 |

Note: The results of operations of information technology segment and Macau Casino Junket profit sharing segment which was discontinued in 2011 have not been restated or reclassified prior to 2010.

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of the Company and its subsidiaries (collectively, the "Group"), I am pleased to present the annual report of the Group for the financial year ended 31 March 2011.

## FINANCIAL PERFORMANCE

The Group's total revenue for the year ended 31 March 2011 was approximately HK$288.97 million, representing an increase of 84.35% as compared with that for the year ended 31 March 2010 (2010: HK$156.75 million). The Group's revenue mainly came from a paper manufacturing business, which recorded a revenue of HK$288.24 million for the year ended 31 March 2011. During the year under review, the Group recorded a net loss of HK$26.87 million as against a net loss of HK$45.03 million in 2010. The net loss attributable to the shareholders was mainly due to the non-cash cost associated with equity-settled share options; the interest expenses on convertible notes, promissory notes and bank borrowings; the amortisation of intangible assets; and the amortisation of the liability portion of the convertible bonds and convertible note.

## BUSINESS REVIEW

### PAPER MANUFACTURING BUSINESS

The Group acquired 51% equity interests in Shangdong Province Jining Gangning Paper Co. Ltd. ("Jining Gangning") in Shangdong Province in the People's Republic of China (the "PRC") in July 2009. Hereafter, the Group started to re-engineer and modify the existing production line no.1. By late March in 2010, such technical upgrade and modification for existing production lines were completed and production lines were equipped with more advanced technologies such as automation, enhancement in production operation and moisture content and color contrast recognition in order to ensure product quality. In April 2010, the Group started to manufacture premium Grade A packaging paper board.

# CHAIRMAN'S STATEMENT


In line with the state policies on environmental protection, the Group invested in constructing environmental sewage water recycling facilities and achieved zero sewage water discharge to society by paper industry for protecting local natural environment, in respect of which the Group is in the lead in the industry in China. In response to state policies to boost domestic consumption, the Group substantially increased production capacity and enhanced product quality upon completion of the production line modification. Profit figures would have improved but for the significant increase in recovered paper prices and energy prices and the delay of completion of new production lines for new high profit margin products since substantial resources were allocated by the Group to the newly acquired biodegradable materials manufacturing business.

Faced with the domestic demands for various specialty papers, the Group decided to re-invest in 2 to 3 specialty paper production lines to enrich our product portfolio, enhance the grading of products in order to expand the Group's market share in high class paper products and to strengthen our products' competitiveness in response to the market's ever-changing and complicated demands. Until the end of March 2011, construction of the manufacturing plant for specialty paper production lines was completed and installation of production facilities for specialty paper has started. With the new production lines and more advanced technologies and equipments, we will be able to manufacture wider range of products and adjust the product structure at any time according to market changes and trends, and also increase the average selling prices thereby increasing the net profits per ton substantially. It is expected that the first specialty paper production line will be officially in operation in August 2011.

Confronted with the ever rising energy prices and raw material prices in the PRC, the Group adopts three policies (the "three policies"): (1) moving into manufacturing diverse types of high class paper from manufacturing ordinary paper of a single category; (2) strengthening enterprise management, reinforcing cost control regarding production, supply and sales and striving to reduce the average level of consumption of energy and raw and accessory materials; and (3) searching for supply of recovered paper from China and international markets to relieve the effects brought by rising raw material prices, so as to ensure the capacity of the manufacturing plants would meet the gradually increasing demand and thus enterprise economic benefits can be raised.

# CHAIRMAN'S STATEMENT


## BIODEGRADABLE MATERIALS MANUFACTURING BUSINESS

On 26 March 2010, Fast Rise Development Limited ("Fast Rise"), a wholly-owned subsidiary of the Group, entered into an acquisition agreement (the "Acquisition Agreement") with the vendor (the "Vendor") to acquire the entire equity interests in Ever Stable Holdings Limited ("Ever Stable"). Ever Stable is an investment holding company incorporated in the British Virgin Islands with limited liability and owns 60% equity interests in a joint venture company, Dongguan Jiu He Bioplastics Company Limited ("Dongguan Jiu He"). Dongguan Jiu He is principally engaged in the development, production and sales of biodegradable materials and related products by entering into a patent license agreement with its PRC partner in relation to certain patented technologies.

As the previously selected location of the plant in Dongguan was not satisfactory and there were difficulties arising from preparation works relating to objective problems such as supply of electricity and labour, the board of Dongguan Jiu He decided to transfer the plant to Zhongshan Port Economic and Technical Development Zone and has since started the selection of the new plant's location and its construction. Zhongshan Port is adjacent to Zhongshan Port Cargo and Ferry Terminals, Guang-Zhu Highway and Expressway and Guangzhou–Zhuhai Railway. It is also in proximity to the Guangzhou, Zhuhai and Shenzhen airports, making it very convenient for sea, land and air transport and it is also very convenient to travel to and from Hong Kong; Zhongshan Port Economic and Technical Development Zone is a national development zone, where the conditions for enterprise development are more superior. The production and living auxiliary facilities there are more comprehensive, attracting more advanced technology talents and management personnel, and the labour costs are also relatively lower.

# CHAIRMAN'S STATEMENT


At the end of March 2011, the renovation of the new plant in Zhongshan was basically completed. 42 sets of production facilities have been ordered and will be installed in July 2011 and put into operation in August 2011. Such production facilities are one of the leading facilities in China. Apart from having experienced manufacturers and experts, we have reserved space for the construction of control room, laying a solid foundation for smooth production and superior conditions for future development. Based on the existing technology patents, we recruited professionals for technology research development to continuously look for newer and better technology patents and also to start launching independent research and development, to explore new technology scopes for the long-term and create intellectual property rights. We have engaged renowned national experts in the industry as technology advisers and capable talents who have extensive experience in production, sales, finance and other aspects as general managers and vice general managers. It is expected after full operation we would be able to produce 20,000 to 30,000 tons of biodegradable materials annually as well as environment friendly downstream products of biodegradable materials including blowing and molding, injection, extrusion and foaming.

In view of the fact that China and the rest of the world are paying more attention to environment protection, and the requirements imposed under international and Chinese standards, we manufacture biodegradable resin and related downstream degradable environment-friendly products with sustainable raw materials such as tapioca flour, organic raw materials, straw and fiber. This project is in line with the Group's business plan to engage in the environment protection industry as processed biodegradable products can be decomposed into soil friendly substances by natural organism after being discarded. This shares the same business belief as that of the Group in developing environmental friendly paper and advocating for a low-carbon and recyclable economy.

# CHAIRMAN'S STATEMENT

## GAMING AND ENTERTAINMENT BUSINESS

The operating environment of the gaming and entertainment business continued to be difficult, resulting in a decline of 96% in the revenue contributed from the sharing of profits of Jun Ying VIP Club for the year under review. The commencement of operations of new casinos in Macau has intensified the competition in the gaming market and it was expected that this line of business would continue to be a loss making venture for the Group unless substantial resources were allocated thereto. In view of the above, on 5 October 2010, the Company as vendor entered into the agreement with a third party to sell all the entire issued share capital of Right Gateway Limited (the holding company for the Group's gaming and entertainment business) for a total consideration of HK$2,000,000. The Directors considered that the disposal would allow the Group to relocate its resources and to focus on its other core businesses, i.e. paper manufacturing business and biodegradable materials manufacturing business. Details of the disposal were set out in the Company's announcement dated 5 October 2010.

## IT CONSULTING BUSINESS

The sale of customized software and related computer equipment and provision of technical support business has not recovered from the global financial turmoil and had been operating at a loss for five consecutive years and their revenue has been deteriorating since 2008 with no signs of rebound. In view of the above, on 31 August 2010, the Company as vendor entered into the agreement with a third party to sell all the entire issued share capital of Mcmanners Management Limited (the holding company for the Group's IT consulting business) and the interest-free shareholder's loan of approximately HK$29,208,000 advanced by the Company for a total consideration of HK$300,000. The Directors considered that the disposal would allow the Group to relocate its resources and to focus on its other core businesses. Details of the disposal were set out in the Company's announcement dated 31 August 2010.

## PROSPECTS

In the light of the world's and the PRC's strong support for recyclable and low-carbon economy, the rapid development of the PRC's domestic economy and stable growth in consumption demand, the Group terminated its IT consulting business and the gaming and entertainment business in Macau in August and October 2010 respectively, and focused on developing a low-carbon, recyclable and environment-friendly paper manufacturing business and biodegradable materials manufacturing business. The Group is optimistic about the long-term prospects of this strategic change. The environment-friendly paper manufacturing business and biodegradable materials manufacturing business have become the Group's two core businesses. The Group will continue to support the usual operation and healthy development of these two major businesses as before.

The Group's management will continue to optimize the Group's resource advantages by adopting the three policies, speeding up the construction of new plant and production lines, enhancing product quality, establishing a base for research and development and expanding sales networks in order to seize more opportunities, create considerable economic benefits and thus maximize shareholders' returns.

On top of developing the two aforesaid environment-friendly businesses, the Group will continue to search actively for attractive investments in environmental and recycling businesses in the PRC and globally with a view to developing the businesses of the Company and generating positive cash flow and earnings for the Group in the long-term.

# CHAIRMAN'S STATEMENT

## OUR APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the shareholders for their continuous support and confidence in the Group. I would also like to express our appreciation to the management team and all staff members for their dedication, diligence and loyalty. Please be rest assured that we will do our best to consolidate our foundation and seek new business opportunities to reciprocate your continuous support. We look forward to sharing our progress with you in the coming year.

**Wong Kam Leong**
*Chairman*
Hong Kong, 28 June 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the year under review, the core businesses of the Group comprise (i) paper manufacturing business; (ii) biodegradable materials manufacturing business; and (iii) money lending services.

### (A) MAJOR ACQUISITION

Referring to the announcement and circular of the Company dated 26 March 2010 and 17 June 2010 respectively, the Board proposed to acquire the entire equity interest in Ever Stable which holds 60% equity interest in Dongguan Jiu He, at a consideration of HK$280 million (the "Ever Stable Acquisition"). The payment of the consideration was to be satisfied by (i) cash of HK$215 million by three installments; and (ii) the issuance and allotment of 216,000,000 new shares ("Consideration Shares") by the Company in the principal amount of HK$65 million at an issue price of HK$0.3009 per Consideration Share. Pursuant to the Acquisition Agreement, the Vendor should provide a profit guarantee in favour of the Company that the profit after taxation of Dongguan Jiu He would not be less than HK$60 million, HK$80 million and HK$100 million for the financial years 2011, 2012 and 2013 respectively. Dongguan Jiu He is principally engaged in the development, production and sales of biodegradable materials and related products by entering into a patent license agreement with its PRC partner dated 21 February 2010 in relation to the patented technologies. The patented technologies include two patents: (i) registered under PRC patent number ZL200610035466.0 of patent name "a production method for a fully biodegradable plastic resin and its related film products", with a validity period from 16 May 2006 to 15 May 2026; and (ii) registered under PRC patent number ZL01144447.9 of patent name "a production method for a starch-based biodegradable material and its related disposable tableware", with a validity period from 18 December 2001 to 17 December 2020. Details of the Ever Stable Acquisition were set out in the Company's announcement dated 26 March 2010, and the circular dated 17 June 2010. The shareholders of the Company, at the special general meeting held on 5 July 2010, approved the Acquisition Agreement and the transactions contemplated thereunder. Completion of the Ever Stable Acquisition took place on 30 September 2010.

Referring to the announcement dated 28 March 2011, the Company entered into a supplemental agreement with the vendor (the "Supplemental Agreement") to amend certain terms and conditions of the Acquisition Agreement to reflect the revised corporate structure of Ever Stable. In addition to the 60% equity interest in Dongguan Jiu He, Ever Stable further owns 100% of World Champion Investments Limited ("World Champion") which holds the entire equity interest of Zhongshan Jiu He Bioplastic Company Limited ("Zhongshan Jiu He"). Under the Supplemental Agreement, the registered capital and paid-up capital of Zhongshan Jiu He are to be included in the calculation of the obligations of the Vendor under the Acquisition Agreement relating to the increase of the registered capital and paid-up capital of Dongguan Jiu He. Further, the relevant periods for the profit guarantee under the Acquisition Agreement are amended and postponed to the three financial years of 2012, 2013 and 2014.

By a declaration of trust dated 7 June 2011, World Champion declares that it, as the nominee, holds 40% equity interest of Zhongshan Jiu He for and on behalf of Guangdong Shangjiu Biodegradable Plastics Company Limited ("Shangjiu"), being the PRC partner of Dongguan Jiu He, from 4 March 2011. Upon request by Shangjiu, World Champion and Shangjiu shall enter into an equity transfer agreement, pursuant to which the 40% equity interests in Zhongshan Jiu He held by World Champion shall be transferred to Shangjiu.

**(B) CONTINUING CONNECTED TRANSACTIONS**

Referring to the announcement and circular of the Company dated 26 May 2010 and 17 June 2010 respectively, Dongguan Jiu He, a joint venture company of which the Company holds 60% equity interest through the Ever Stable Acquisition, entered into an agreement ("Master Agreement") with Shangjiu, which holds 40% of Dongguan Jiu He, in relation to the supply of biodegradable resin and related products ("Products"). Pursuant to the Master Agreement, Dongguan Jiu He agreed to supply and Shangjiu agreed to purchase the Products for a period of three years and the price for the Products should be determined in accordance with the relevant prevailing market price at the time the purchase order is placed by Shangjiu. The annual maximum total amount of the transactions contemplated under the Master Agreement for each of the three years is HK$350,000,000, HK$1,000,000,000 and HK$1,000,000,000 respectively. The shareholders of the Company, at the special general meeting held on 5 July 2010, approved the Master Agreement and the transactions contemplated thereunder.

**(C) SUBSCRIPTIONS FOR NEW SHARES ("SUBSCRIPTIONS")**

Referring to the announcement of the Company dated 16 April 2010, the Company entered into a subscription agreement with certain subscribers who subscribed for 104,390,000 new shares of HK$0.04 each in the share capital of the Company at a subscription price of HK$0.22 each. The net proceeds from the subscription were approximately HK$22,200,000 and were applied as part payment of the refundable deposit for the Ever Stable Acquisition. Completion of the subscription took place on 29 April 2010.

Referring to the announcement of the Company dated 30 June 2010, the Company entered into a subscription agreement with certain subscribers who subscribed for 121,000,000 new shares of HK$0.04 each in the share capital of the Company at a subscription price of HK$0.20 each. The net proceeds from the subscription were approximately HK$24,000,000 and were applied as part payment of the refundable deposit for the Ever Stable Acquisition. Completion of the subscription took place on 22 July 2010.

Referring to the announcement and circular of the Company dated 14 October 2010 and 3 November 2010 respectively, the Company entered into certain subscription agreements with certain subscribers who subscribed for 853,000,000 new shares of HK$0.04 each in the share capital of the Company at a subscription price of HK$0.145 each. Completion of the subscription took place on 2 December 2010. The net proceeds of approximately HK$120,000,000 from the subscription were used as payment for the Ever Stable Acquisition and redemption of the promissory note issued by the Company.

## (D) PLACING OF WARRANTS

Referring to the announcement of the Company dated 5 November 2010, the Company entered into the placing agreement with the placing agent, pursuant to which the Company agreed to appoint the placing agent, on a fully underwritten basis, for the purposes of arranging subscribers for the subscription of the warrants. The issue price per warrant was HK$0.01 and the subscription price was HK$0.15 (subject to adjustment). Upon the exercise of the subscription rights attaching to the warrants in full, a maximum of 150,000,000 new shares would be issued and allotted. The net proceeds of approximately HK$1,250,000 from the placing (without taking into account of the exercise of the warrants) were used as general working capital of the Group. If the warrants were exercised in full, an additional amount of approximately HK$22,000,000 would be raised. The additional net proceeds of approximately HK$22,000,000 (with minimal administrative expenses) was intended to be used as general working capital of the Group.

## (E) ISSUE OF CONVERTIBLE NOTES

Referring to the announcements of the Company dated 17 November 2010 and 3 December 2010, and circular of the Company dated 7 December 2010, the Company entered into the subscription agreement with the subscriber pursuant to which the subscriber conditionally agreed to subscribe for the convertible notes (the "Notes") in the principal amount of RMB70,000,000 (equivalent to approximately HK$81,680,280) due five years from the closing date with the right to convert the Notes into 474,928,028 conversion shares at the accreted principal amount and the initial conversion price of HK$0.25 (subject to adjustments and reset) per conversion share. The proceeds from the subscription were expected to give greater flexibility to the Group for its existing business development. Completion of the issue of Notes took place on 28 December 2010. The net proceeds from the issue of the Notes (after deduction of all related expenses) of approximately RMB65,989,000 (equivalent to HK$77,000,000) were used for the payment for the Ever Stable Acquisition, expansion of paper manufacturing business and as general working capital of the Group.

## (F) INCREASE IN AUTHORIZED SHARE CAPITAL

Pursuant to an ordinary resolution passed by the shareholders of the Company on 23 December 2010, the authorised share capital of the Company was increased from HK$100,000,000 divided into 2,500,000,000 ordinary shares of HK$0.04 each to HK$300,000,000 divided into 7,500,000,000 ordinary shares of HK$0.04 each.

## (G) PROFIT GUARANTEE

Referring to the announcement dated 31 March 2011, the Board announced that the audited consolidated net profit after taxation of Jining Gangning for the financial year ended 31 December 2010 was RMB 4.32 million. Under the acquisition agreement of the entire equity interest of Mega Bright dated 10 February 2009 ("MB Agreement"), the vendor, Mr. Chook Hong Shee ("Mr. Chook") had given a profit guarantee that the profit after tax of Jining Gangning for each of the two years ending 31 December 2011 should not be less than RMB60 million ("MB Profit Guarantee") and should compensate Glory Smile Enterprises Limited ("Glory Smile"), a wholly-owned subsidiary of the Company the shortfall of the MB Profit Guarantee in proportion to its 51% equity interest in Jining Gangning. As such, the compensation under the MB Profit Guarantee for the year ended 31 December 2010 to Glory Smile should be RMB28.39 million (equivalent to approximately HK$32.88 million) (the "Shortfall"). Pursuant to the confirmation letter dated 31 March 2011, Glory Smile agreed that a sum of HK$22,000,000, representing 67% of the Shortfall, should be compensated by setting off an equivalent amount from the convertible bonds issued to Mr. Chook under the MB Agreement. The outstanding amount of the Shortfall will be aggregated into and increase the MB Profit Guarantee, without interest, for the financial year ending 31 December 2011.

## FINANCIAL REVIEW

### REVENUE AND LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year under review, the Group's revenue was approximately HK$288.97 million, an increase of 84.35% as compared to last year (2010: HK$156.75 million). The increase in revenue was mainly due to the paper manufacturing business, which recorded a revenue of HK$288.24 million for the year under review. There was no revenue contributed by the biodegradable materials manufacturing business acquired during the year because the renovation of new plant in Zhongshan was only completed at the end of March 2011. Production facilities of the Zhongshan plant will be installed in July 2011 and put into operation in August 2011.

For the year under review, the Group recorded a net loss of HK$26.87 million as against a net loss of HK$45.03 million in 2010. The net loss attributable to the shareholders was mainly due to the non-cash cost associated with equity-settled share options; the interest expenses on convertible notes, promissory notes and bank borrowings; the amortisation of intangible assets; and the amortisation of the liability portion of the convertible bonds and convertible note.

### SEGMENT PERFORMANCE

During the year under review, revenue contributed by the Group's paper manufacturing business, provision of money lending services was 99.7% and 0.3% respectively, comparing to 99.2% and 0.8% respectively in 2010.

### LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 March 2011, the Group's cash and bank balances which were principally Renminbi and Hong Kong dollar denominated, amounted to approximately HK$70.46 million (2010: 25.23 million). The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Renminbi income receipt for operating expenses in the PRC and did not use any financial instruments for hedging purpose.

As at 31 March 2011, the Group had secured bank loans of approximately HK$27.99 million (2010: HK$26.07 million), unsecured bank loans of approximately HK$3.57 million (2010: Nil) and secured entrustment loan of approximately HK$18.76 million (2010: HK$23.07 million). All borrowings were denominated in Renminbi and the bank loans of approximately HK$21.44 million had fixed interest rates.

As at 31 March 2011, the Group's gearing ratio, measured on the basis of total borrowings (including convertible bonds; convertible note and derivative financial instruments) as a percentage of total shareholder's funds, was approximately 30.38% (2010: 62.7%). The Group continues to monitor its working capital requirement closely with a view to reducing its total borrowings to lower the finance costs and maintain a healthy net gearing ratio of the Group.

During the year under review, the Group financed its operations primarily with internally generated cash flow as well as the funds raised successfully from the issuance of a convertible note and the Subscriptions in the amount of approximately HK$77 million and HK$166.2 million after expenses respectively. Funds raised from the convertible note were used for the payment for the Ever Stable Acquisition, expansion of paper manufacturing business and as general working capital of the Group. Funds raised from the Subscriptions were applied as payment for the Ever Stable Acquisition and as general working capital.

The Group adopted a conservative financial management and treasury policy and will continue to apply such policy in the coming year. The Group will need to raise additional funds for the expansion of paper manufacturing business and biodegradable materials manufacturing business. In view of the Group's current liquidity position, the Directors expect the Group will be able to raise sufficient funds to meet its operational and investment needs in the foreseeable future.

## CHARGE OF GROUP'S ASSETS

As at 31 March 2011, the Group's land use rights and buildings with net carrying values of approximately HK$19.56 million and HK$41.39 million respectively were pledged to secure bank loans of approximately HK$27.99 million. In addition, the Group had restricted bank deposits of approximately HK$45.85 million held to secure bank acceptance notes payable of approximately HK$65.51 million arising from normal trade.

As at 31 March 2010, the Group's land use rights and buildings with net carrying values of approximately HK$19.42 million and HK$42.22 million respectively were pledged to secure bank loans of approximately HK$26.07 million. In addition, the Group had restricted bank deposits of approximately HK$16.15 million and bank acceptance notes receivable of approximately HK$1.43 million held to secure bank acceptance notes payable of approximately HK$23.07 million arising from normal trade.

## FOREIGN CURRENCY EXPOSURE

The Group continues to adopt a conservative treasury policy with almost all deposits in Hong Kong dollars and Renminbi, keeping minimum exposure to foreign exchange risks. As the sales, purchases, expenditures, assets and liabilities are mainly denominated in Hong Kong dollars and Renminbi, the Group has not adopted any hedging policy or entered into any derivative products which are considered not necessary for the Group's treasury management activities.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 31 March 2011.

As at 31 March 2010, the Group had contingent liabilities arising out of an outstanding litigation. A District Court action was commenced by a customer against a subsidiary of the Group in respect of claims for damages of HK$784,320 and a return of service fee of HK$10,080 paid by the customer and interests thereon, by reason of the subsidiary's repudiatory breach of a computer software implementation and maintenance contract and total failure of consideration and/or money had and received. On 3 December 2008, the subsidiary filed a defence and counterclaim for service fees of HK$76,000 and interest thereon.

No settlement has been reached for the action mentioned above and no judgment has yet been made against the subsidiary in respect of such claims. The Directors consider that it is not possible to estimate the eventual outcome of such claims with reasonable certainty at the current stage. The Directors are of the opinion that the subsidiary has a valid defence and consider such claims would not have material adverse impact on the financial position of the Group. The Company disposed of the entire issued share capital of this subsidiary in August 2010.

## EMPLOYEES

As at 31 March 2011, the Group had approximately 107 (2010: 105) employees in Hong Kong and the PRC. The total remuneration to employees, including the executive Directors for the year under review, amounted to approximately HK$22.02 million (2010: HK$26.92 million). Employees in Hong Kong are entitled to provident fund contributions and medical insurance. For employees in the PRC, the Group is required to contribute to state-sponsored retirement plans at certain prescribed rates based on their basic salaries. In addition, the Group provides comprehensive on-the-job trainings to its employees and sponsors employees who participate in job-related training courses to ensure that their qualifications always meet the changing market standards. The remuneration policy and packages are regularly reviewed by the Board. Apart from provident fund scheme, medical insurance and discretionary bonuses, share options are also awarded to employees according to the assessment of individual performance.

## FUTURE PLAN OF CAPITAL INVESTMENTS

In addition to the continued improvement of the operating performance of the existing businesses, the Group will seek new business collaborations and investment opportunities for diversification.

# PROFILE OF DIRECTORS

Profile of the Directors are set out as follows:

## EXECUTIVE DIRECTORS

**Mr. Wong Kam Leong**, aged 47, has been the chairman of the Company since 28 November 2005. Mr. Wong was the chairman of 國家經貿委機關服務局中山銀興（集團）有限公司 (Zhongshan Yinxing (Holdings) Limited, the Internal Service Bureau of the State Economic and Trade Commission), a general manager of 輕工業部北京國輕實業公司 (Beijing National Light Industrial Company limited, the Ministry of Light Industry), the chairman of 中山威力電器集團有限公司 (Zhongshan Weili Electronics Appliances Group Limited) and a director of 中國科技證券有限責任公司 (China Science and Technology Securities Company Limited Liability Company). He has more than 20 years experience in sales and marketing and property trading and development in the PRC. Mr. Wong is responsible for the overall strategic planning, direction and business development of the Company. Mr. Wong is a substantial shareholder of the Company.

**Mr. Hu Dongguang**, aged 62, has been an executive Director and the Chief Executive Officer of the Company since 18 January 2010. Mr. Hu is a senior economist in the People's Republic of China ("PRC"). Mr. Hu holds a bachelor's degree in economics from Beijing Economics Institute (now Capital University of Economics and Business) (北京經濟學院(現首都經貿大學)). Mr. Hu has more than 30 years extensive experience in development planning, capital operations, administration management and sales management. Mr. Hu also served as the deputy secretary for Food Industries, the Ministry of Light Industries (輕工業部食品工業司), the managing director of 香港穗華公司, a window company of the Ministry of Light Industries in Hong Kong, the chairman of the Council of China Beverage Industry Association (中國飲料工業協會), a deputy director of Economic and Trade Division, the Ministry of Light Industries of the PRC (中國輕工業部經濟貿易部), the assistant to the head of Light Weaving Office of Ningxia Province (寧夏省輕紡廳), the director of Legal Regulation Office (法規處), the deputy division chief of Survey and Investigations Division (調研處), a consultant in the Sixth Specialist Consultant Team of the People's Government of Beijing (北京人民政府第六屆專家顧問團) and a vice chairman of Chinese Cultural Industries Development Fund (及中國文化產業發展基金). Mr. Hu is responsible for administrative aspects and business development of the Group.

**Mr. Wu Bingxiang**, aged 46, has been an executive Director of the Company since 1 September 2009. Mr. Wu is also chairman of Jining Gangning Paper Co. Ltd. in Shandong Province in the PRC, a 51% subsidiary of the Company. From 2000 to 2008, Mr. Wu was a deputy general manager and an executive director of a building materials company in the PRC and has extensive experience in management, merchandising and marketing in the PRC. Mr. Wu is responsible for administrative aspects and business development of the paper manufacturing business of the Group.

# PROFILE OF DIRECTORS

**Dr. Guo Wanda**, aged 45, has been an executive Director of the Company since 1 May 2010. Dr. Guo is a vice president of China Development Institute of Shenzhen. He is also chairman of Shenzhen Association of Management Consultants. Dr. Guo graduated from Nankai University in Tianjin, the People's Republic of China ("the PRC") with a Bachelor's Degree and a Master's Degree in economics. He also obtained a Doctor of Philosophy in economics from the same university in 1991. Dr. Guo has extensive experience in China macroeconomics, industrial economy, industrial investment and corporate development strategy. Dr. Guo has been an independent non-executive director of Powerleader Science & Technology Group Limited, which is listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), since 2008, and Shenzhen FIYTA Holdings Limited, which is listed on the Shenzhen Stock Exchange, since 2005 respectively. Dr. Guo has been assessed and approved as a researcher by 廣東省職稱評定委員會 (Title Evaluation Committee of Guangdong Province). He has worked with various government departments, corporations and research institutes, namely, as an assistant to the general manager at 深圳廣順股份有限公司 (Shenzhen Guangshun Co., Ltd.), the chairman and general manager of 湖北沙市廣順公司 (Hubei Shashi Guangshun Company), the director of 深圳市政府信息中心宏觀室 (division of macroeconomic of Shenzhen Municipal Government Information Center), the editor-in-chief of 經濟動態 (Economic Dynamic), a committee member of 深圳市委市政府決策諮詢委員會 (advisory committee of Shenzhen municipal government), a member of 深圳市社科聯主席團 (the presidium of Shenzhen Academy of Social Sciences), an expert of 深圳市軟科學專家委員會 (Shenzhen Soft Science Expert Committee), a general manager of 綜合開發研究院所屬腦庫投資管理公司 (Shenzhen ThinkTank Investment & Management Co., Ltd. under China Development Institute of Shenzhen) and a vice president of 深圳市宏觀經濟學會 (Macroeconomic Association of Shenzhen City). Dr. Guo is responsible for business and technical development of the biodegradable materials manufacturing business of the Group and future investments in environmental and recycling businesses in the PRC and globally.

## NON-EXECUTIVE DIRECTORS

**Mr. Zhang Chi**, aged 45, has been a non-executive Director of the Company with since 18 January 2010. Mr. Zhang has been a qualified lawyer in the PRC since 1987 and is currently working with Zhong Yuan Law Firm in Guangdong Province. Mr. Zhang is also a vice chairman of Guangdong Lawyers Association (廣東省律師協會) and a honorary chairman of Zhongshan Lawyers Association (中山市律師協會). Mr. Zhang specialises in civil and commercial law, environmental law and financial and securities law in the PRC. Mr. Zhang is holding and has held various public offices, including being a member of the Sixth Council of All China Lawyers Association (中華全國律師協會), a member of the Tenth Zhongshan Municipality Committee of the Chinese People's Political Municipal People's Government (政協中山市第十屆委員會), a legal adviser to Zhongshan Municipal People's Government (l中山市人民政府), a member of Guangdong Returned Overseas Chinese Adolescent Committee (廣東省僑青委), an arbitrator of Guangzhou Arbitration Commission (廣州仲裁委員會), the PRC legal adviser to Ocean Junior Chamber, Hong Kong (香港浩洋青年商會), and a legal adviser to a number of listed companies and large enterprises in Hong Kong and the PRC. Mr. Zhang resigned from his position as non-executive Director of the Company on 29 April 2011.

# PROFILE OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS ("INED")

**Mr. Ng Kwok Chu, Winfield**, aged 52, has been an INED and a member of audit committee and remuneration committee of the Company since 3 January 2006. Mr. Ng has more than 20 years of consumer and commercial finance experience in the markets of Hong Kong and the PRC. He is an executive director of Sino Prosper State Gold Resources Holdings Limited, a company listed on the Main Board of the Stock Exchange, and an executive director of China Netcom Technology Holdings Limited, a company listed on the GEM of the Stock Exchange.

**Mr. Ng Chau Tung, Robert**, aged 55, has been an INED and a member of audit committee and remuneration committee of the Company since 3 January 2006. Mr. Ng is the chief executive officer of a private company, which mainly involves in financial arrangement for listed companies and small and medium enterprises, and trading of environmental protection or energy saving products. Mr. Ng holds a Bachelor of Business Administration from The Chinese University of Hong Kong. He is a Registered Financial Planner, a fellow member of the Institute of Financial Accountant (U.K.) and a full member of Certified Professional Economist of Hong Kong Society of Economists Limited. Mr. Ng has more than 20 years of experience in the banking sector. He was the chairman of the Hong Kong Equipment Leasing Association and an independent non-executive committee member of the Finance House Association and the Hong Kong Deposit Taking Company Association.

**Mr. Tse Ching Leung**, aged 37, has been an INED and a member of audit committee and remuneration committee of the Company since 1 September 2009. Mr. Tse holds an accounting degree in the City University of Hong Kong and has more than 15 years experience in professional auditing, accounting and financial management. He is the financial controller and company secretary of Sau San Tong Holdings Limited, a company listed on GEM of the Stock Exchange. Mr. Tse is an associate member of Hong Kong Institute of Certified Public Accountants.

**Mr. Wang Qingyi**, aged 47, has been an INED of the Company since 18 January 2010. Mr. Wang is a graduate of the Central Communist Party School (中央黨校) in economics. Mr. Wang is currently a deputy director of Hainan Province Yangpu Economic Development Zone (海南省洋浦經濟開發區) and a deputy secretary general of China Optimization Society of Capital Construction (中國基本建設優化研究會). Mr. Wang has more than 20 years of experience in economics and administration management. Mr. Wang has worked for State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), State Economic and Trade Commission (國家經濟貿易委員會) and Central Committee General Office (中央辦公廳). Mr. Wang was also an independent director of Jonjee Hi-tech Industrial & Commercial Co., Ltd. (中炬高新技術實業（集團）股份有限公司), a company listed in Shanghai, from July 2006 to May 2008.

# REPORT OF THE DIRECTORS

The Directors present their report together with the audited accounts for the year ended 31 March 2011.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 19 to the accounts. An analysis of the Group's performance for the year by business and geographical segments is set out in note 14 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 37-38. The Directors do not recommend the payment of a dividend for the year ended 31 March 2011 (2010: Nil).

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 41 to the accounts and in the consolidated statement of changes in equity on pages 42-43 respectively.

Details of distributable reserves of the Company as at 31 March 2011 are set out in note 41 to the accounts.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the accounts.

## SHARE CAPITAL

Details of movements in the share capital are set out in note 40 to the accounts.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws although there is no restriction against such rights under the laws of Bermuda.

## FINANCIAL INFORMATION SUMMARY

A summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years is set out on page 3.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## CONNECTED TRANSACTIONS

Details of the connected transactions entered into by the Company are set out in note 44 to the accounts.

Details about other related party transactions undertaken in the normal course of business but not constituting a discloseable connected transaction as defined under the GEM Listing Rules are set out in note 44 to the accounts.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

## DIRECTORS

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

*Executive Directors*

| | |
|---|---|
| Mr. Wong Kam Leong | |
| Mr. Hu Dongguang | |
| Mr. Wu Bingxiang | |
| Dr. Guo Wanda | (Appointed on 1 May 2010) |
| Ms. Li Jie Yi | (Resigned on 29 October 2010) |

*Non-Executive Directors*

| | |
|---|---|
| Mr. Zhang Chi | (Resigned on 29 April 2011) |

*Independent Non-Executive Directors*

Mr. Ng Kwok Chu, Winfield
Mr. Ng Chau Tung, Robert
Mr. Tse Ching Leung
Mr. Wang Qingyi

In accordance with the Bye-Laws of the Company, Mr. Wong Kam Leong, Mr. Wu Bingxiang and Mr. Ng Kwok Chu, Winfield will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

## SHARE OPTIONS

A summary of the share option schemes and details of the movements in share options of the Company during the year are set out under note 38 to the accounts.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors (including those who are proposing for re-election at the forthcoming annual general meeting) has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 March 2011, the following Directors and chief executive of the Company had or were deemed to have interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap.571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules:

**Long positions in Shares:**

| Name | Type of interest | Number of ordinary shares of the Company | Number of underlying shares of the Company | Total | Percentage of Shareholding |
|---|---|---|---|---|---|
| *Directors* | | | | | |
| Wong Kam Leong | Corporate Interest | 654,125,000 *(Note 1)* | | 669,125,000 | 25.50% |
| | Personal Interest | | 15,000,000 *(Note 2)* | | |
| Hu Dongguang | Personal Interest | – | 15,000,000 *(Note 2)* | 15,000,000 | 0.57% |
| Wu Bingxiang | Personal Interest | – | 14,000,000 *(Note 3)* | 14,000,000 | 0.53% |
| Guo Wanda | Personal Interest | – | 14,000,000 *(Note 3)* | 14,000,000 | 0.53% |
| Zhang Chi *(Note 8)* | Personal Interest | 36,350,000 | 10,000,000 *(Note 4)* | 46,350,000 | 1.77% |
| Ng Kwok Chu, Winfield | Personal Interest | – | 1,500,000 *(Note 5)* | 1,500,000 | 0.06% |
| Ng Chau Tung, Robert | Personal Interest | – | 1,500,000 *(Note 5)* | 1,500,000 | 0.06% |
| Tse Ching Leung | Personal Interest | – | 1,700,000 *(Note 6)* | 1,700,000 | 0.06% |
| Wang Qingyi | Personal Interest | – | 1,000,000 *(Note 7)* | 1,000,000 | 0.04% |

*Notes:*

1. Out of the 654,125,000 shares in the Company, 248,125,000 shares are beneficially owned by and registered in the name of Wide Fine International Limited ("Wide Fine"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Wong Kam Leong, an executive Director and 406,000,000 shares are beneficially owned by and registered in the name of View Good International Limited ("View Good"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Tam Sio Wan, the wife of Mr. Wong Kam Leong.

2. As at 31 March 2011, 15,000,000 share options conferring rights to subscribe for 15,000,000 shares.

3. As at 31 March 2011, 14,000,000 share options conferring rights to subscribe for 14,000,000 shares.

4. As at 31 March 2011, 10,000,000 share options conferring rights to subscribe for 10,000,000 shares.

5. As at 31 March 2011, 1,500,000 share options conferring rights to subscribe for 1,500,000 shares.

6. As at 31 March 2011, 1,700,000 share options conferring rights to subscribe for 1,700,000 shares.

7. As at 31 March 2011, 1,000,000 share options conferring rights to subscribe for 1,000,000 shares.

8. Resigned on 29 April 2011.

Save as disclosed above, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Save as disclosed above, none of the Directors and chief executive (including their spouse and children under the age of 18) had any interest in, or had been granted, or exercised, any right to subscribe for the shares of the Company and its associated corporations (within the meaning of the SFO).

Save as disclosed above, none of the Directors, chief executive or their associates had any interests or short position in the securities of the Company or any of its associated corporations as defined in Part XV of the SFO which was discloseable for the year ended 31 March 2011.

## SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 March 2011, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

| Name | Number of ordinary shares held | Number of underlying shares held | Total | Percentage of shareholding |
|---|---|---|---|---|
| Wide Fine International Limited *(Note 1)* | 248,125,000 (L) | – | 248,125,000 (L) | 9.46% |
| View Good International Limited *(Note 2)* | 406,000,000 (L) | – | 406,000,000 (L) | 15.47% |
| Sam Hon Sum | 22,000,000 (L) | – | 22,000,000 (L) | 0.84% |
| | 210,000,000 (S) | – | 210,000,000 (S) | 8.00% |
| Yardley Finance Limited *(Note 3)* | 210,000,000 (L) | – | 210,000,000 (L) | 8.00% |
| Nicky International Limited *(Note 4)* | 216,000,000 (L) | – | 216,000,000 (L) | 8.23% |
| Leung Wa *(Note 5)* | 222,000,000 (L) | – | 222,000,000 (L) | 8.46% |

The letter "L" denotes a long position in the shares.

The letter "S" denotes a short position in the shares.

*Notes:*

1. Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong ("Mr.Wong"), an executive Director.
2. View Good International Limited is beneficially and wholly owned by Ms. Tam Sio Wan, the wife of Mr.Wong.
3. Yardley Finance Limited is beneficially and wholly owned by Mr. Chan Kin Sun.
4. Nicky International Limited is beneficially and wholly owned by Mr. Chen Jianqiu and Mr. Leung Wa in equal shares.
5. 216,000,000 out of 222,000,000 shares are attributable by shares held by Nicky International Limited.

Save as disclosed above, no other person had registered an interest or short position in the shares and underlying shares of the Company that was required to be reported pursuant to section 336 of the SFO as at 31 March 2011.

# REPORT OF THE DIRECTORS

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

| | |
|---|---|
| Purchases | |
| – the largest supplier | 67.15% |
| – five largest suppliers combined | 80.00% |
| Sales | |
| – the largest customer | 14.56% |
| – five largest customers combined | 28.61% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers or customers during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 2011, the Directors were not aware of any business or interest of each Director, management shareholder (as defined in the GEM Listing Rules) and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 28 to 34 of this report.

## AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield as chairman, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 March 2011.

## BOARD PRACTICES AND PROCEDURES

Save as disclosed above, throughout the year ended 31 March 2011, the Company has complied with Rule 5.34 of the GEM Listing Rules concerning board practices and procedures.

## AUDITORS

AGCA CPA Limited, resigned as auditors of the Company on 17 March 2011. The accounts for the year ended 31 March 2011 have been audited by Crowe Horwath (HK) CPA Limited who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Wong Kam Leong**
*Chairman*

Hong Kong, 28 June 2011

# CORPORATE GOVERNANCE REPORT

The Company is firmly committed to statutory and regulatory corporate governance standards and adheres to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Code on CG Practices") contained in Appendix 15 of the GEM Listing Rules.

## DIRECTORS SECURITIES TRANSACTION

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specified enquiry with the Directors, all the Directors confirmed that they have complied with the required code of conduct and required standard of dealings.

## BOARD OF DIRECTORS

### COMPOSITION OF THE BOARD OF DIRECTORS (THE "BOARD")

As at 31 March 2011, the Board comprised nine Directors, including four executive Directors, one non-executive Director and four independent non-executive Directors.

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

*Executive Directors*
Mr. Wong Kam Leong
Mr. Hu Dongguang
Mr. Wu Bingxiang
Dr. Guo Wanda (Appointed on 1 May 2010)
Ms. Li Jie Yi (Resigned on 29 October 2010)

*Non-Executive Directors*
Mr. Zhang Chi (Resigned on 29 April 2011)

*Independent non-executive Directors*
Mr. Ng Kwok Chu, Winfield
Mr. Ng Chau Tung, Robert
Mr. Tse Ching Leung
Mr. Wang Qingyi

Under the Bye-Laws of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation save for any Director holding office as Chairman or Managing Director and those Directors appointed by the Board who only hold office until the forthcoming annual general meeting. The retiring Directors shall be eligible for re-election. The non-executive Director and the independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation. Accordingly, Mr. Wong Kam Leong, Mr. Wu Bingxiang and Mr. Ng Kwok Chu, Winfield will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Detail of backgrounds and qualifications of the Chairman of the Company and the other Directors are set out in pages 17 to 19 of the Annual Report. The Board comprises a balanced composition of executive Directors and independent non-executive Directors which possesses a wide spectrum of relevant skills and experience.

## ROLE AND FUNCTION OF THE BOARD

The Board supervises the management of the business and affairs of the Group. It has established self-regulatory and monitoring mechanisms to ensure effective corporate governance. The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group.

The Board delegates the day-to-day management, administration and operation of the Company to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Company. The Board gives clear directions to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Thirty-four Board meetings were held during the year under review. Board members are provided with complete, adequate and timely information to allow the Directors to fulfil their duties properly. Details of the attendances of the Board meetings are set out below:

| **Directors** | **Attendance** |
|---|---|
| *Executive Directors* | |
| Mr. Wong Kam Leong | 33/34 |
| Mr. Hu Dongguang | 33/34 |
| Mr. Wu Bingxiang | 29/34 |
| Dr. Guo Wanda *(Note 1)* | 24/34 |
| Ms. Li Jie Yi *(Note 2)* | 12/34 |
| *Non- Executive Directors* | |
| Mr. Zhang Chi *(Note 3)* | 22/34 |
| *Independent Non-Executive Directors* | |
| Mr. Ng Kwok Chu, Winfield | 23/34 |
| Mr. Ng Chau Tung, Robert | 23/34 |
| Mr. Tse Ching Leung | 23/34 |
| Mr. Wang Qingyi | 22/34 |

*Notes:*

1. Appointed on 1 May 2010.

2. Resigned on 29 October 2010.

3. Resigned on 29 April 2011.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of the Chairman of the Company is separated from that of the Chief Executive Officer. Mr. Wong Kam Leong is the Chairman and Mr. Hu Dongguang is the Chief Executive Officer. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

The Chairman of the Company is the leader of the Board and oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Chief Executive Officer, assisted by other executive Directors, is responsible for the day-to-day management of the business of the Group, formulation and successful implementation of company policies. He assumes full accountability to the Board for the operations of the Group. Working with the Chairman and the executive management team of each core business division, the Chief Executive Officer ensures smooth operations and development of the Group. He maintains continuing dialogue with the Chairman and all Directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are persons of high caliber with vast experiences in the fields of accounting, financial and overseas market. They provide strong support to the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

## NOMINATION OF DIRECTORS

The Board is responsible for the selection and approval of candidates for appointment and the Company has established a nomination committee (the "Nomination Committee") since 9 May 2006 which currently consists of three independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung. Mr. Ng Kwok Chu, Winfield currently presides as chairman of the Nomination Committee.

The primary role and function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. In selecting the suitable candidates, the Board will take into account the qualifications, ability, working experience, leadership and professional ethics of the candidates.

No meetings were held by the Nomination Committee during the year ended 31 March 2011.

## REMUNERATION COMMITTEE

### COMPOSITION OF THE REMUNERATION COMMITTEE

The Company has established the Remuneration Committee since 9 May 2006 which currently consists of three independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung.

## ROLE AND FUNCTION OF THE REMUNERATION COMMITTEE

The principle responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and senior management of the Company, to determine specific remuneration packages for all executive Directors and senior management of the Company, and to make recommendations to the Board of the remuneration of non-executive Directors. Such remuneration policy is determined based on the expertise, capability, performance and responsibility of the Directors and senior management. The Remuneration Committee also takes into consideration of factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In addition to salaries, the Company also provides staff benefits such as medical insurance and contributions to staff's mandatory provident scheme.

## REMUNERATION COMMITTEE MEETINGS

Two Remuneration Committee meetings were held during the year under review. Details of the attendance of the Remuneration Committee meetings are as follows:

| **Members** | **Attendance** |
|---|---|
| Mr. Ng Kwok Chu, Winfield *(Chairman)* | 2/2 |
| Mr. Ng Chau Tung, Robert | 2/2 |
| Mr. Tse Ching Leung | 2/2 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year and to ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## INTERNAL CONTROL

The Company has conducted review of its internal control system periodically to ensure an effective and adequate internal control system exists. The Company convened meetings periodically to discuss financial, operational and risk management control. The Directors consider that the Company has implemented a series of procedures for safeguarding the Company's assets against unauthorized use or misappropriation, maintaining accounting records properly and ensuring the reliability of financial information.

## AUDIT COMMITTEE

### COMPOSITION OF THE AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. During the year ended 31 March 2011, the Audit Committee comprised the following members, namely, Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung. All of them are independent non-executive Directors. The Chairman of the Audit Committee is Mr. Ng Kwok Chu, Winfield.

During the year under review, the Audit committee held four meetings to review and supervise the financial reporting process. The annual results for the year have been reviewed by the Audit Committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and adequate disclosures have been made.

### ROLE AND FUNCTION OF THE AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, Rules 5.28 to 5.33 of the GEM Listing Rules and Code Provision C.3.3 of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide an important link between the Board and the Company's auditor on those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit and conducts risk evaluation. The Audit Committee is provided with sufficient resources to discharge its responsibilities and is supported by the Finance Department of the Company. The Audit Committee is accountable to the Board.

### AUDIT COMMITTEE MEETINGS

During the year ended 31 March 2011, the Audit Committee held four meetings to review and supervise the financial reporting process and has reviewed the quarterly, interim and annual results of the Group. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The Audit Committee also carried out and discharged its other duties as set out in the Code.

Attendance of each of the independent non-executive Directors at the Audit Committee meetings for the year ended 31 March 2011 is set out as follows:

| Members | Attendance |
|---|---|
| Mr. Ng Kwok Chu, Winfield | 4/4 |
| Mr. Ng Chau Tung, Robert | 4/4 |
| Mr. Tse Ching Leung | 4/4 |

The audited consolidated results of the Group for the year ended 31 March 2011 have been reviewed by the Audit Committee.

There is no disagreement between the Audit Committee and the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

## AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 31 March 2011, the total remuneration of the Group's auditor for the statutory audit services is approximately HK$1,120,000 (2010: HK$890,000).

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Long Success International (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 37 to 158, which comprise the consolidated and Company statements of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 about whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the states of affairs of the Company and of the Group as at 31 March 2011 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.

## EMPHASIS OF MATTER IN RELATION TO THE GOING CONCERN BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

Without qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Group incurred loss of approximately HK$28,280,000 for the year ended 31 March 2011 and as of that date, the Group's and the Company's current liabilities exceeded its current assets by approximately HK$96,657,000 and HK$91,743,000 respectively. These conditions, along with other matters as set forth in note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's abilities to continue as a going concern. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the success of the measures as stated in note 2(b) for the Group, to raise of new funds to cover the Group's losses and to meet its financing commitment.

**Crowe Horwath (HK) CPA Limited**
Certified Public Accountants
Hong Kong, 28 June 2011

**Lau Kwok Hung**
Practising Certificate Number: P04169

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

| | Note | **2011 HK$'000** | 2010 HK$'000 (restated) |
|---|---|---|---|
| **Revenue** | 4 | **288,970** | 156,747 |
| Cost of sales | | **(262,012)** | (144,782) |
| Gross profit | | **26,958** | 11,965 |
| Other net income and net gains | 5 | **7,781** | 5,748 |
| Selling expenses | | **(817)** | (329) |
| Administrative expenses | | **(52,018)** | (33,556) |
| Loss on extinguishment of convertible redeemable bonds | | **–** | (1,066) |
| Operating loss | | **(18,096)** | (17,238) |
| Finance costs | 6 | **(18,129)** | (9,203) |
| Loss before taxation | 7 | **(36,225)** | (26,441) |
| Income tax | 8 | **(267)** | (528) |
| Loss for the year from continuing operations | | **(36,492)** | (26,969) |
| Discontinued operations | | | |
| Profit/(loss) for the year from discontinued operations | 9 | **8,212** | (17,528) |
| **Loss for the year** | | **(28,280)** | (44,497) |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | | |
| – Exchange difference arising during the year | | **12,195** | 7,394 |
| – Reclassification adjustments upon disposal of subsidiaries | | **(184)** | – |
| | | **12,011** | 7,394 |
| Income tax relating to components of other comprehensive income | | **–** | – |
| | | **12,011** | 7,394 |
| **Total comprehensive loss for the year** | | **(16,269)** | (37,103) |
| **Loss for the year** | | | |
| Attributable to: | | | |
| Owners of the Company | | **(26,870)** | (45,026) |
| Non-controlling interests | | **(1,410)** | 529 |
| | | **(28,280)** | (44,497) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

| | Note | **2011 HK$'000** | 2010 HK$'000 (restated) |
|---|---|---|---|
| **Total comprehensive income/(loss) for the year** | | | |
| Attributable to: | | | |
| Owners of the Company | | **(18,276)** | (41,509) |
| Non-controlling interests | | **2,007** | 4,406 |
| | | **(16,269)** | (37,103) |
| **Loss per share attributable to owners of the Company** | 13 | | |
| From continuing and discontinued operations | | | |
| – Basic (HK cents per share) | | **(1.77)** | (4.99) |
| – Diluted (HK cents per share) | | **(1.77)** | (4.99) |
| From continuing operations | | | |
| – Basic (HK cents per share) | | **(2.31)** | (3.04) |
| – Diluted (HK cents per share) | | **(2.31)** | (3.04) |

The notes on pages 46 to 158 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **180,972** | 171,906 |
| Prepaid lease payments | 16 | **19,081** | 18,941 |
| Goodwill | 17 | **151,070** | 80,967 |
| Intangible assets | 18 | **244,445** | – |
| Available-for-sale financial assets | 20 | **180** | 180 |
| Deposit for acquisition for property, plant and equipment | 21 | **59,532** | – |
| Deposit for acquisition of subsidiaries | 21 | **–** | 10,000 |
| Loans receivable | 22 | **–** | 221 |
| **Total non-current assets** | | **655,280** | 282,215 |
| **Current assets** | | | |
| Inventories | 23 | **21,097** | 13,377 |
| Trade receivables | 24 | **11,794** | 19,407 |
| Loans receivable | 22 | **2,539** | 5,686 |
| Prepayment, deposits and other receivables | 25 | **105,066** | 108,273 |
| Term deposits | 27 | **–** | 29,000 |
| Pledged bank deposits | 30 | **45,854** | 16,149 |
| Cash and cash equivalents | 28 | **24,605** | 9,081 |
| **Total current assets** | | **210,955** | 200,973 |
| **Current liabilities** | | | |
| Trade payables | 29 | **19,004** | 23,762 |
| Bank acceptance notes payable | 30 | **65,505** | 23,070 |
| Other payables | 29 | **76,818** | 39,251 |
| Subscription received | 31 | **–** | 15,500 |
| Payable for plant and equipment | 32 | **–** | 66,442 |
| Current portion of interest-bearing loans | 33 | **43,395** | 30,974 |
| Convertible bonds | 36 | **16,603** | – |
| Convertible note | 37 | **36,135** | – |
| Derivative financial instruments | 37 | **49,268** | – |
| Provision for taxation | | **884** | 606 |
| **Total current liabilities** | | **307,612** | 199,605 |
| **Net current (liabilities)/assets** | | **(96,657)** | 1,368 |
| **Total assets less current liabilities** | | **558,623** | 283,583 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing loans | 33 | **6,922** | 18,165 |
| Promissory notes | 35 | **–** | 40,000 |
| Convertible bonds | 36 | **–** | 31,489 |
| Deferred tax liabilities | 34 | **50,022** | 1,434 |
| **Total non-current liabilities** | | **56,944** | 91,088 |
| **NET ASSETS** | | **501,679** | 192,495 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 40 | **104,958** | 45,378 |
| Share premium and reserves | | **272,247** | 105,406 |
| **Equity attributable to owners of the Company** | | **377,205** | 150,784 |
| **Non-controlling interests** | | **124,474** | 41,711 |
| **TOTAL EQUITY** | | **501,679** | 192,495 |

Approved and authorised for issue by the board of directors on 28 June 2011

**Wong Kam Leong**
*Director*

**Hu Dongguang**
*Director*

The notes on pages 46 to 158 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 (restated) | 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Interests in subsidiaries | 19 | **1** | 1 | 15,801 |
| Deposit for acquisition | 21 | **–** | 10,000 | 47,500 |
| Amounts due from subsidiaries | 26(a) | **501,271** | 235,670 | 46,325 |
| **Total non-current assets** | | **501,272** | 245,671 | 109,626 |
| **Current assets** | | | | |
| Prepayment, deposits and other receivables | 25 | **5** | 358 | – |
| Cash and cash equivalents | 28 | **12,587** | 6,790 | 1,136 |
| **Total current assets** | | **12,592** | 7,148 | 1,136 |
| **Current liabilities** | | | | |
| Other payables | 29 | **2,329** | 2,480 | 1,334 |
| Subscription received | 31 | **–** | 15,500 | – |
| Convertible bonds | 36 | **16,603** | – | – |
| Convertible note | 37 | **36,135** | – | – |
| Derivative financial instruments | 37 | **49,268** | – | – |
| **Total current liabilities** | | **104,335** | 17,980 | 1,334 |
| **Net current liabilities** | | **(91,743)** | (10,832) | (198) |
| **Total assets less current liabilities** | | **409,529** | 234,839 | 109,428 |
| **Non-current liabilities** | | | | |
| Amounts due to subsidiaries | 26(b) | **41,635** | 12,323 | 4,146 |
| Promissory notes | 35 | **–** | 40,000 | – |
| Convertible bonds | 36 | **–** | 31,489 | – |
| **Total non-current liabilities** | | **41,635** | 83,812 | 4,146 |
| **NET ASSETS** | | **367,894** | 151,027 | 105,282 |
| CAPITAL AND RESERVES | | | | |
| **Equity attributable to owners of the Company** | | | | |
| Share capital | 40 | **104,958** | 45,378 | 30,320 |
| Share premium and reserves | 41 | **262,936** | 105,649 | 74,962 |
| **TOTAL EQUITY** | | **367,894** | 151,027 | 105,282 |

Approved and authorised for issue by the board of directors on 28 June 2011

**Wong Kam Leong**
*Director*

**Hu Dongguang**
*Director*

The notes on pages 46 to 158 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

| | | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 | Exchange reserve HK$'000 | Share option reserve HK$'000 | Warrant reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total Equity HK$'000 |
| At 1 April 2009 | | 30,320 | 140,499 | (341) | 156 | 11,003 | – | – | (76,917) | 104,720 | 318 | 105,038 |
| Loss for the year | | – | – | – | – | – | – | – | (45,026) | (45,026) | 529 | (44,497) |
| Other comprehensive income | | | | | | | | | | | | |
| Exchange difference arising during the year | | – | – | – | 3,517 | – | – | – | – | 3,517 | 3,877 | 7,394 |
| Total comprehensive income/(loss) for the year | | – | – | – | 3,517 | – | – | – | (45,026) | (41,509) | 4,406 | (37,103) |
| Share subscriptions | 40(b)(iii) | 11,560 | 43,640 | – | – | – | – | – | – | 55,200 | – | 55,200 |
| Share issue expenses | | – | (896) | – | – | – | – | – | – | (896) | – | (896) |
| Issue of shares upon exercise of share options | 40(b)(i) &(ii) | 3,498 | 18,632 | – | – | (7,116) | – | – | – | 15,014 | – | 15,014 |
| Issue of convertible redeemable notes | | – | – | – | – | – | – | 1,066 | – | 1,066 | – | 1,066 |
| Redemption of convertible redeemable notes | | – | – | – | – | – | – | (1,066) | 1,066 | – | – | – |
| Convertible bonds issued for acquisition of subsidiaries | 36&42(b) | – | – | – | – | – | – | 7,439 | – | 7,439 | – | 7,439 |
| Equity-settled share-based payments | 38 | – | – | – | – | 9,750 | – | – | – | 9,750 | – | 9,750 |
| Acquisition of subsidiaries | 42(b) | – | – | – | – | – | – | – | – | – | 12,773 | 12,773 |
| Contribution from non-controlling interests | | – | – | – | – | – | – | – | – | – | 24,214 | 24,214 |
| At 31 March 2010 | | 45,378 | 201,875(#) | (341)(#) | 3,673(#) | 13,637(#) | –(#) | 7,439(#) | (120,877)(#) | 150,784 | 41,711 | 192,495 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

| | Note | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 | Exchange reserve HK$'000 | Share option reserve HK$'000 | Warrant reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Accumulated losses HK$'000 | Statutory reserve HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | | | | | |
| At 1 April 2010 | | 45,378 | 201,875 | (341) | 3,673 | 13,637 | – | 7,439 | (120,877) | – | 150,784 | 41,711 | 192,495 |
| Loss for the year | | – | – | – | – | – | – | – | (26,870) | – | (26,870) | (1,410) | (28,280) |
| Other comprehensive income | | | | | | | | | | | | | |
| Exchange difference arising during the year | | – | – | – | 8,778 | – | – | – | – | – | 8,778 | 3,417 | 12,195 |
| Reclassification adjustment upon disposal of subsidiaries | | – | – | – | (184) | – | – | – | – | – | (184) | – | (184) |
| Total comprehensive income/(loss) for the year | | – | – | – | 8,594 | – | – | – | (26,870) | – | (18,276) | 2,007 | (16,269) |
| Issue of shares upon exercise of share options | 40(b)(v) | 1,440 | 7,422 | – | – | (2,934) | – | – | – | – | 5,928 | – | 5,928 |
| Placing of new shares | 40(b)(iv) | 49,500 | 156,355 | – | – | – | – | – | – | – | 205,855 | – | 205,855 |
| Released upon disposal of subsidiaries | | – | – | 341 | – | – | – | – | – | – | 341 | (389) | (48) |
| Issue of shares upon acquisition of a new subsidiary | 40(b)(vi) &42(a) | 8,640 | 20,952 | – | – | – | – | – | – | – | 29,592 | – | 29,592 |
| Share issue expenses | | – | (3,404) | – | – | – | – | – | – | – | (3,404) | – | (3,404) |
| Acquisition of a new subsidiaries | 42(a) | – | – | – | – | – | – | – | – | – | – | 66,056 | 66,056 |
| Cancellation of convertible bonds | 36&42(b) | – | – | – | – | – | – | (4,092) | 1,117 | – | (2,975) | – | (2,975) |
| Issue of unlisted warrants | 40(c) | – | – | – | – | – | 1,500 | – | – | – | 1,500 | – | 1,500 |
| Equity-settled share-based payments | 38 | – | – | – | – | 7,860 | – | – | – | – | 7,860 | – | 7,860 |
| Transfer to statutory reserve | | – | – | – | – | – | – | – | (792) | 792 | – | – | – |
| Contribution from non-controlling interests | | – | – | – | – | – | – | – | – | – | – | 15,089 | 15,089 |
| At 31 March 2011 | | 104,958 | 383,200(#) | –(#) | 12,267(#) | 18,563(#) | 1,500(#) | 3,347(#) | (147,422)(#) | 792(#) | 377,205 | 124,474 | 501,679 |

(#) As at 31 March 2011, the aggregate amount of share premium and reserves was HK$272,247,000 (2010: HK$105,406,000).

The notes on pages 46 to 158 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the year | | **(28,280)** | (44,497) |
| Adjustments for: | | | |
| Gain on disposal of subsidiaries | | **(8,804)** | – |
| Income tax expense | | **267** | 528 |
| Equity-settled share-based payment expense | 38 | **7,860** | 9,750 |
| Finance costs | | **18,129** | 9,203 |
| Amortisation of prepaid lease payments | | **480** | 188 |
| Amortisation of other intangible assets | | **9,116** | – |
| Depreciation of property, plant and equipment | | **16,493** | 15,411 |
| Impairment loss on trade receivables | | **–** | 125 |
| Fair value Change on derivative financial instrument | | **(1,205)** | – |
| Impairment loss on goodwill | 17 | **–** | 15,800 |
| (Gain)/loss on extinguishment of convertible bonds/ redeemable notes | | **(1,268)** | 1,066 |
| Interest income, excluding that derived from money lending operation | | **(923)** | (1,642) |
| Imputed interest on receivable | | **(3,326)** | – |
| Loss on disposal of property, plant and equipment | | **337** | – |
| | | **8,876** | 5,932 |
| **Changes in working capital** | | | |
| (Increase)/decrease in inventories | | **(7,285)** | 16,997 |
| Decrease/(increase) in trade receivables | | **8,180** | (11,560) |
| Decrease in loans receivable | | **3,368** | 2,919 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **71,515** | (29,795) |
| Increase in bank acceptance notes payable | | **41,685** | 23,167 |
| (Decrease)/increase in trade payables | | **(3,245)** | 9,326 |
| (Decrease)/increase in accruals and other payables | | **(9,568)** | 18,108 |
| **Cash generated from operations** | | **113,526** | 35,094 |
| Interest paid | | **(9,461)** | (6,672) |
| Income tax paid | | **(1,968)** | (957) |
| **Net cash generated from operating activities** | | **102,097** | 27,465 |
| **Investing activities** | | | |
| Interest received, excluding that derived from money–lending operation | | **923** | 1,642 |
| Deposit paid for acquisition of subsidiaries | | **–** | (10,000) |
| Deposit paid for purchase of property, plant and equipment | | **(59,532)** | – |
| Net cash inflow from disposal of subsidiaries | 9 | **2,400** | – |
| Purchase of property, plant and equipment | | **(16,265)** | (9,764) |
| Net cash outflow on acquisition of subsidiaries | 42(a) | **(200,472)** | (102,492) |
| Decrease in term deposits | | **29,000** | 3,000 |
| **Net cash (used in) investing activities** | | **(243,946)** | (117,614) |

For the year ended 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from issue of shares | | **190,355** | 55,200 |
| Share issue expenses | | **(3,404)** | (896) |
| Increase in pledged bank deposits | | **(29,179)** | (16,217) |
| Subscription received | 31 | **–** | 15,500 |
| Repayment of payable for acquiring plant and equipment | | **(64,772)** | (45,191) |
| Proceeds from bank borrowings | | **31,562** | 49,346 |
| Proceeds from issue of convertible redeemable notes | | **81,680** | 15,000 |
| Redemption of convertible redeemable notes | | **–** | (15,000) |
| Repayment of promissory note | | **(40,000)** | (6,500) |
| Proceeds from exercise of share options | | **5,928** | 15,014 |
| Proceeds from issuance of warrants | | **1,500** | – |
| Repayment of interest bearing loans | | **(31,982)** | – |
| Capital contribution by non-controlling interests | | **15,089** | 24,214 |
| **Net cash generated from financing activities** | | **156,777** | 90,470 |
| **Net increase in cash and cash equivalents** | | **14,928** | 321 |
| **Cash and cash equivalents at the beginning of the year** | | **9,081** | 2,940 |
| **Effect of foreign exchange rate changes** | | **596** | 5,820 |
| **Cash and cash equivalents at the end of the year** | 28 | **24,605** | 9,081 |

The notes on pages 46 to 158 form part of these financial statements.

## 1. GENERAL INFORMATION

Long Success International (Holdings) Limited (the "Company") is an exempted company incorporated in Bermuda with limited liability and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and principal place of business are Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and 26/F, EIB Centre, 40-44 Bonham Street, Sheung Wan, Hong Kong respectively.

The Company is an investment holding Company. During the year, its subsidiaries are principally engaged in (i) manufacturing and sales of paper products, (ii) money-lending business and (iii) biodegradable materials manufacturing business.

Its subsidiaries were also engaged in (iv) sales of customised software and related computer equipment, and provision of computer-related technical support and maintenance services and (v) sharing of profits of a junket representative of a VIP lounge in a casino in Macau but both of which were discontinued in the current year as disclosed in note 9.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Group incurred loss for the year ended 31 March 2011 of approximately HK$28,280,000 and as of that date, the Group's and the Company's current liabilities exceeded its current assets by HK$96,657,000 and HK$91,743,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The directors of the Company have been taking active steps to improve the liquidity position of the Group. These steps included (1) one of the substantial shareholders has confirmed his intention and ability to provide continuing financial support to the Group so as to enable it to meets its liabilities as and when they fall due and to carry on its business for the foreseeable future; (2) the directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including but not limited to, private placement, open offer or right issue of new shares of the Company; and (3) the directors of the Company continue to take action to tighten cost controls over various operating expenses, with an aim to attaining profitable and positive cash flow operations.

In light of the measures described above, the directors are confident that the Group will have sufficient working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. These consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

The consolidated financial statements for the year ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operations ("the functional currency"). Hong Kong dollar is the Company's functional and presentation currency. These financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand except for loss per share data.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments which are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the note 46.

During the year, the Group disposed of certain subsidiaries which constituted discontinued operations under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, the results derived from such operations are presented as discontinued operations in the current year. The comparative figures for the corresponding year have been reclassified to conform with the current year's presentation.

### (c) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (Continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 April 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, an investment in a subsidiary is carried at cost less impairment losses (see note 2(i)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (d) BUSINESS COMBINATIONS

**Business combinations on or after 1 April 2010**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) BUSINESS COMBINATIONS (Continued)

**Business combinations on or after 1 April 2010 (Continued)**

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair values, except that:

- deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12, Income Tax;

- liabilities or assets relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

- liabilities or equity instruments relating to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) BUSINESS COMBINATIONS (CONTINUED)

**Business combinations on or after 1 April 2010 (Continued)**

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

**Business combinations prior to 1 April 2010**

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 the control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) BUSINESS COMBINATIONS (Continued)

**Business combinations prior to 1 April 2010 (Continued)**

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

### (e) GOODWILL

Goodwill is carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On the disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(i)):

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 5% |
| Plant and machinery | $6^2/_3$% – 10% |
| Leasehold improvements | 50% or over the lease term whichever is shorter |
| Furniture and fixtures | 25% |
| Computer equipment | 25 – $33^1/_3$% |
| Motor vehicles | 25% |

Display gemstones which comprise collectable items are considered to have indefinite life and not subject to depreciation.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

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

The gain or loss on disposal of property, plant and equipments is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any identified impairment loss. Construction in progress is classified to other appropriate categories of property, plant and equipment when completed and ready for the assets' intended use. Depreciation of these assets which will take place on the same basis as other property assets, commences when the assets are ready for their intended use.

### (g) INTANGIBLE ASSETS

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives, as follows:

| | |
|---|---|
| Right to use of patents | 10 – 15 years |

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.

### (h) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) LEASED ASSETS (Continued)

#### (i) Classification of assets leased to the Group

Assets held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### (ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised on a straight-line basis over the period of the lease term except where the asset is classified as an investment property.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) IMPAIRMENT OF ASSETS

#### (i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries, associates and jointly-controlled entities: see note 2(i)(ii)) and other current and non-current receivables that are carried at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) IMPAIRMENT OF ASSETS (Continued)

#### (i) Impairment of investments in equity securities and other receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities which are carried at fair value, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) IMPAIRMENT OF ASSETS (Continued)

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts;

– intangible assets;

– investments in subsidiaries and associates (except for those classified as being held for sale); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) IMPAIRMENT OF ASSETS (Continued)

#### (ii) Impairment of other assets (Continued)

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (j) INVENTORIES

Inventories are carried at the lower of cost and net realizable value. Costs include cost of purchase (including taxes, transport and handling) net of trade discounts received and other costs incurred in bringing the inventories to their present location and condition, and are calculated using the weighted average method. Net realizable value is determined based on estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised in profit or loss in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter carried at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are carried at cost less allowance for impairment of doubtful debts (see note 2(i)).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are carried at cost less any identified impairment losses (see note 2(i)) at the end of each reporting period.

### (m) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (n) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently carried at amortised cost unless the effect of discounting would be immaterial, in which case they are carried at cost.

### (o) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

### (p) CONVERTIBLE BONDS/NOTE

#### (i) Convertible note that contain an equity component

Convertible note that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) CONVERTIBLE BONDS/NOTES (Continued)

#### (i) Convertible notes that contain an equity component (Continued)

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

#### (ii) Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 2(q)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 2(q). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fare value is recognised immediately in profit or loss.

### (r) EMPLOYEE BENEFITS

#### (i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Where payment or settlement is deferred and the effect would be material, these amounts are carried at their present values.

#### (ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) EMPLOYEE BENEFITS (Continued)

#### (iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (s) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) INCOME TAX (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) PROVISION AND CONTINGENT LIABILITIES

#### (i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(t)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(t)(ii).

#### (ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are carried at the present value of the expenditure expected to settle the obligation.

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

### (u) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and, where it is probable that the economic benefits will flow to the Group and the revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably, is recognised as follows:

#### (i) Sale of paper products, biodegradable products, computer equipment and packaged software

Revenue from sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) REVENUE RECOGNITION (Continued)

#### (ii) Service income

Service income is recognised when services are provided.

#### (iii) Profits assigned from a junket representative of a casino VIP lounge

Revenue from sharing of profits is recognised when the right to receive profit is established.

#### (iv) Interest income from money-lending operation

Interest income is recognised as it accrues using the effective interest method.

#### (v) Technical support and maintenance services income

Fees for technical support and maintenance services are recognized over the terms of the respective service contracts.

#### (vi) Dividend income

Dividend income from securities and other investments is recognised when the right to receive payment is established.

### (v) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) TRANSLATION OF FOREIGN CURRENCIES (Continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 Arpril 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

From 1 April 2010 onwards, on the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

### (w) BORROWING COSTS

Borrowong costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (x) DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) DISCONTINUED OPERATIONS (Continued)

When an operation is classified as discontinued, a single amount is presented on the face of the profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

### (y) RELATED PARTIES

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (z) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

| | |
|---|---|
| HKFRS 2 (Amendments) | Group cash-settled share-based payment transactions |
| HKFRS 3 (as revised in 2008) | Business combinations |
| HKAS 27 (as revised in 2008) | Consolidated and separated financial statements |
| HKAS 32 (Amendments) | Classification of rights issues |
| HKAS 39 (Amendments) | Financial instruments: Recognition and measurement – eligible hedged items |
| HK(IFRIC) Int 17 | Distributions of non-cash assets to owners |
| HK(Int) 5 | Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |

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

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.

### HKFRS 3 (REVISED 2008), BUSINESS COMBINATIONS

As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 April 2010 will be recognised in accordance with the requirements under HKFRS 3 (revised 2008). Its application has affected the accounting for business combinations in the current year.

- HKFRS 3 (revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. Consequently, the goodwill recognised in respect of the acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of the recognised amount of the identifiable net assets of the acquiree.

- HKFRS 3 (revised 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments, if any, to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (revised 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, with those costs being recognised as an expense in profit or loss as incurred. Previously, they were accounted for as part of the cost of the acquisition.

HKFRS 3 (revised 2008) requires that where the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

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

### HKFRS 3 (REVISED 2008), BUSINESS COMBINATIONS (Continued)

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying amounts of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

In the current year, the application of HKFRS 3 (revised 2008) has affected the acquisition of Ever Stable Holdings Limited as follows:

**Consolidated statement of financial position**

| | 31/3/2011<br>HK$'000 |
|---|---|
| Acquisition-related costs expensed | (2,178) |
| Decrease in goodwill recognised as a result of the application of HKFRS 3 (revised 2008) | (2,178) |

**Consolidated statement of comprehensive income**

| | Year ended<br>31/3/2011<br>HK$'000 |
|---|---|
| Acquisition-related costs expensed | (2,178) |
| Increase in loss for the year as a result of the application of HKFRS 3 (revised 2008) | (2,178) |

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

### HKAS 27 (REVISED 2008), CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The application of HKAS 27(amended 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. Previously, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised. For decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (amended 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (amended 2008) requires the derecognition of all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

In accordance with the transitional provisions of HKAS27, these changes in accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Revisions to HKAS 27 (revised 2008) have not had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (no transactions whereby an interest in an entity is retained after the loss of control of that entity) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

### AMENDMENTS TO HKAS 17 LEASES, AS PART OF IMPROVEMENTS TO HKFRSS ISSUED IN 2009

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

The application of the amendments to HKAS 17 has had no impact on the amounts reported in current and prior years as the Group has no leasehold land that qualifies for finance lease classification in current and prior years.

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

### HONG KONG INTERPRETATIONS 5, PRESENTATION OF FINANCIAL STATEMENTS - CLASSIFICATION BY THE BORROWER OF A TEAM LOAN THAT CONTAINS A REPAYMENT ON DEMAND CLAUSE

Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK (Int) 5') clarifies that term loans that include a clause that gives the lender an unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK (Int) 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK (Int) 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK (Int) 5, term loans with a repayment on demand clause are classified as current liabilities.

The application of HK Int 5 has had no impact on the reported financial position or profit or loss for the current and prior years as the Group did not have such kind of term loans at the end of the reporting period.

### AMENDMENTS TO HKAS 1 PRESENTATION OF FINANCIAL STATEMENTS (AS PART OF IMPROVEMENTS TO HKFRSS ISSUED IN 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current, provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, notwithstanding that the entity could be required by the counterparty to settle in shares at any time.

In line with the amendments to HKAS 1, the Group has classified the liability component of convertible note issued in the current year as current based on when cash settlement may be required to be made. This amendment has had no effect on the amounts reported in prior years.

## 4. REVENUE

Revenue represents the sales value of goods supplied to customers and interest income from money-lending operation, net of value-added tax and/or business tax. An analysis of the Group's revenue is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(restated) |
|---|---|---|
| Continuing operations | | |
| **Revenue** | | |
| Sales of package and paper products | **288,237** | 155,417 |
| Interest income from money-lending operation | **733** | 1,330 |
| | **288,970** | 156,747 |

## 5. OTHER NET INCOME AND NET GAINS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| **Other income** | | |
| Interest income, other than that from money-lending operation | **923** | 1,642 |
| Imputed interest on receivable | **3,326** | – |
| Total interest income on financial assets not at fair value through profit or loss | **4,249** | 1,642 |
| Sundry income | **1,059** | 4,106 |
| | **5,308** | 5,748 |
| **Net gains** | | |
| Fair value change on derivative financial instruments | **1,205** | – |
| Gain on extinguishment of convertible bonds | **1,268** | – |
| | **7,781** | 5,748 |

## 6. FINANCE COSTS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Continuing operations | | |
| Interest on bank borrowings wholly repayable within five years | **7,469** | 3,056 |
| Interest on convertible redeemable note | **–** | 2,250 |
| Interest on promissory notes (note 35) | **1,995** | 1,366 |
| Imputed interest on convertible bonds (note 36) | **5,407** | 2,531 |
| Imputed interest on convertible note (note 37) | **3,258** | – |
| Total interest expense on financial liabilities not at fair value through profit or loss | **18,129** | 9,203 |

## 7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging and/(crediting) the following:

| | 2011 HK$'000 | 2010 HK$'000 (restated) |
|---|---|---|
| Continuing operations | | |
| Auditor's remuneration | **1,562** | 795 |
| Costs of inventories sold included in costs of sales | **262,012** | 144,782 |
| Amortisation of prepaid lease payments | **480** | 481 |
| Amortisation of intangible assets | **9,116** | – |
| Depreciation | **16,493** | 15,317 |
| (Gain)/loss on extinguishment of convertible bonds/redeemable notes | **(1,268)** | 1,066 |
| Loss on disposal of property, plant and equipment | **337** | – |
| Exchange loss | **1,927** | – |
| Minimum lease payments under operating leases in respect of leased premises | **2,315** | 1,643 |
| Staff costs including directors' emoluments (note 11) | | |
| – Contributions to defined contribution retirement plan | **972** | 1,945 |
| – Equity-settled share-based payments expenses | **5,319** | 7,902 |
| – Salaries, wages and other benefits | **15,731** | 17,072 |
| | **22,022** | 26,919 |

## 8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Continuing operations | | |
| Current tax – provision for current year: | | |
| – Hong Kong | **–** | 217 |
| – PRC | **1,231** | 311 |
| Current tax – under provision in previous year: | | |
| – PRC | **982** | – |
| Deferred tax | | |
| – Credited to consolidated statement of comprehensive income during the year (note 34(a)) | **(1,946)** | – |
| | **267** | 528 |

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Subsidiaries located in the PRC are subject to the PRC enterprise income tax at a rate of 25% (2010: 25%) on its assessable profits. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

A reconciliation of the theoretical tax expense calculated using the statutory tax rate to the actual tax expense is as follows:

| | **2011 HK$'000** | 2010 HK$'000 (restated) |
|---|---|---|
| Loss before taxation (from continuing operations) | **(36,225)** | (26,441) |
| Tax at applicable tax rate | **(6,801)** | (6,701) |
| Tax effect of income not subject to tax | **(1,864)** | (129) |
| Tax effect of expenses not deductible for tax | **8,038** | 7,226 |
| Tax effect of temporary differences not recognised | **–** | 132 |
| Under provision in previous years | **982** | – |
| Tax effect of tax losses not recognized | **52** | – |
| Others | **(140)** | – |
| Tax expense for the year | **267** | 528 |

## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES

### (a) DISPOSAL OF MCMANNERS MANAGEMENT LIMITED

On 31 August 2010, the Company as vendor entered into an agreement with an independent third party to sell the entire 100% equity interest of Mcmanners Management Limited and to sell the interest-free shareholder's loan of approximately HK$29,208,000 advanced by the Company for a total consideration of HK$300,000. The disposal was completed on 31 August 2010.

Mcmanners Management Limited was engaged in sale and implementation of customized software and related computer equipment and the provision of computer-related technical support and maintenance services (Information technology operation) through its subsidiaries.

### (b) DISPOSAL OF RIGHT GATEWAY LIMITED

On 5 October 2010, the Company as vendor entered into an agreement with an independent third party (the "Purchaser") to sell its entire 100% equity interests in Right Gateway Limited for a total consideration of HK$2,000,000 which Right Gateway Limited through its subsidiary was engaged in sharing of profits of a junket representative of a VIP lounge in a casino in Macau (Macau casino junket profit sharing operation). It was a term in the agreement that the Purchaser shall assume the liabilities of the debts of approximately HK$9,676,000 as at the date of the agreement, due to Right Gateway Limited and its subsidiary by the Company and Cherry Oasis (Far East) Limited, a wholly-owned subsidiary of the Company. The disposal was completed on 5 October 2010.

(i) The results of the discontinued operations included in the consolidated statement of comprehensive income and consolidated statement of cash flows up to the date of disposals are set out below.

## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (Continued)

(i) (Continued)

| 2011 | Information technology HK$'000 | Macau casino Junket profit Sharing HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Revenue** | 69 | 10 | 79 |
| Cost of sales | (37) | – | (37) |
| Gross profit | 32 | 10 | 42 |
| Other income | 1 | – | 1 |
| Administrative expenses | (626) | (9) | (635) |
| (Loss)/profit before taxation | (593) | 1 | (592) |
| Gain on disposal of subsidiaries | 6,416 | 2,388 | 8,804 |
| Profit for the year from discontinued operations | 5,823 | 2,389 | 8,212 |
| Attributable to: | | | |
| Owners of the Company | 5,823 | 2,389 | 8,212 |
| Non-controlling interests | – | – | – |
| | 5,823 | 2,389 | 8,212 |
| Profit for the year from discontinued operations included the following: | | | |
| Auditor's remuneration | 5 | – | 5 |
| Costs of inventories sold included in costs of sales | 37 | – | 37 |
| Depreciation | 20 | – | 20 |
| Staff costs | 315 | – | 315 |
| Cash flows from discontinued operations: | | | |
| Net cash flows used in operating activities | (108) | – | (108) |
| Net cash flows used in investing activities | – | – | – |
| Net cash flows from financing activities | – | – | – |
| Net cash outflow | (108) | – | (108) |

## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (Continued)

(i) (Continued)

| 2010 | Information technology HK$'000 | Macau casino Junket profit Sharing HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Revenue** | 2,446 | 239 | 2,685 |
| Cost of sales | (614) | – | (614) |
| Gross profit | 1,832 | 239 | 2,071 |
| Administrative expenses | (3,645) | (29) | (3,674) |
| Impairment loss on trade receivables | (125) | – | (125) |
| Impairment loss on goodwill | – | (15,800) | (15,800) |
| Loss for the year from discontinued operations | (1,938) | (15,590) | (17,528) |
| Loss for the year from discontinued operations | | | |
| Attributable to: | | | |
| Owners of the Company | (1,938) | (15,661) | (17,599) |
| Non-controlling interest | – | 71 | 71 |
| | (1,938) | (15,590) | (17,528) |
| Loss for the year from discontinued operations included the following: | | | |
| Auditors' remuneration | 85 | 10 | 95 |
| Costs of inventories sold included in costs of sales | 614 | – | 614 |
| Depreciation | 94 | – | 94 |
| Impairment loss on trade receivables | 125 | – | 125 |
| Impairment loss on goodwill | – | 15,800 | 15,800 |
| Minimum lease payments under operating leases in respect of leased premises | 132 | – | 132 |
| Staff costs | 2,495 | – | 2,495 |
| Cash flows from discontinued operations: | | | |
| Net cash flows used in operating activities | (688) | – | (688) |
| Net cash flows used in investing activities | (11) | – | (11) |
| Net cash flows from financing activities | – | – | – |
| Net cash outflow | (699) | – | (699) |

## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (Continued)

(ii) Analysis of assets and liabilities of the information technology operation undertaken by Mcmanners Management Limited at the date of disposal on 31 August 2010 and the Macau casino junket profit sharing operation undertaken by Right Gateway Limited at the date of disposal on 5 October 2010 were as follows:

| | **Information Technology** HK$'000 | **Macau casino Junket profit Sharing** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Net (liabilities)/assets disposed of: | | | |
| Property, plant and equipment | 23 | – | 23 |
| Other receivables | – | 1 | 1 |
| Amount due from the Group | – | 9,676 | 9,676 |
| Trade receivables | 58 | – | 58 |
| Other current assets | 579 | – | 579 |
| Trade payables | (2,218) | – | (2,218) |
| Other current liabilities | (4,614) | – | (4,614) |
| Tax payable | (1) | – | (1) |
| Bank overdraft | (100) | – | (100) |
| Shareholder's loan | (29,208) | – | (29,208) |
| Net (liabilities)/assets | (35,481) | 9,677 | (25,804) |
| Non-controlling interests | – | (389) | (389) |
| | (35,481) | 9,288 | (26,193) |
| Release of cumulative exchange differences on translation of foreign operations | (184) | – | (184) |
| Release of merger reserve | 341 | – | 341 |
| Assignment of shareholder's loan | 29,208 | – | 29,208 |
| Assignment of debts | – | (9,676) | (9,676) |
| Gain on disposal of subsidiaries | 6,416 | 2,388 | 8,804 |
| | 300 | 2,000 | 2,300 |
| Satisfied by: | | | |
| Cash received | 300 | 2,000 | 2,300 |
| Analysis of net cash inflow in respect of disposal of subsidiaries: | | | |
| Cash received | 300 | 2,000 | 2,300 |
| Bank overdraft disposed of | 100 | – | 100 |
| Net cash inflow on disposal | 400 | 2,000 | 2,400 |

## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (Continued)

(iii) Segment revenues and results

The following is an analysis of segment revenues and results from the information technology segment and Macau casino junket profit sharing segment:

| For the year ended 31 March 2011 | Information technology HK$'000 | Macau casino junket profit sharing HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers | **69** | **10** | **79** |
| **Segment results** | **(593)** | **1** | **(592)** |
| **Other information** | | | |
| Depreciation and amortisation | **20** | **–** | **20** |
| Capital expenditure | **–** | **–** | **–** |

| For the year ended 31 March 2010 | Information technology HK$'000 | Macau casino junket profit sharing HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers | 2,446 | 239 | 2,685 |
| **Segment results** | (1,938) | (15,590) | (17,528) |
| **Other information** | | | |
| Depreciation and amortisation | 94 | 897 | 991 |
| Capital expenditure | 10 | 39 | 49 |
| Impairment of goodwill | – | 15,800 | 15,800 |

## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES (Continued)

(iv) Segment assets and liabilities

The following is an analysis of segment assets and liabilities of the information technology segment and Macau casino junket profit sharing segment as at 31 March 2010:

| | Information technology HK$'000 | Macau casino junket profit sharing HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Segment assets** | 853 | 32 | 885 |
| **Segment liabilities** | 6,605 | 15 | 6,620 |

(v) Geographical information

The Group's operations of information technology and Macau casino junket profit sharing is principally located in Hong Kong and Macau respectively.

The segment revenue from external customers external customers according to the geographical locations where those customers are located are detailed below:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Macau | **10** | 239 |
| PRC | **–** | 684 |
| Hong Kong (place of domicile) | **69** | 1,762 |
| | **79** | 2,685 |

The analysis of the Group's non-current assets (other than financial instruments) according to the geographical areas where those assets are located are detailed below:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Macau | **–** | – |
| PRC | **–** | 20 |
| Hong Kong (place of domicile) | **–** | 23 |
| | **–** | 43 |

## 10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company dealt with in the financial statements of the Company for the year ended 31 March 2011 was HK$27,489,000 (2010: HK$41,828,000).

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Fees | **1,630** | 1,053 |
| Salaries, allowances and benefits | **337** | 213 |
| Performance-related bonus | **–** | 3,500 |
| Employee share options benefits | **2,374** | 3,878 |
| | **4,341** | 8,644 |

**2011**

| | Fees HK$'000 | Salaries, allowance and benefits HK$'000 | Performance related bonus HK$'000 | Equity-settled share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Wong Kam Leong | 360 | 300 | - | 269 | 929 |
| Li Jie Yi (Resigned on 29 Oct 2010) | 120 | - | - | - | 120 |
| Wu Bingxiang | 240 | 31 | - | 273 | 544 |
| Hu Dongguang | 330 | 6 | - | 287 | 623 |
| Zhang Chi (Resigned on 29 April 2011) | 120 | - | - | 251 | 371 |
| Guo Wanda (Appointed on 1 May 2010) | 220 | - | - | 1,006 | 1,226 |
| **Independent non-executive directors** | | | | | |
| Ng Kwok Chu, Winfield | 80 | - | - | 72 | 152 |
| Ng Chau Tung, Robert | 80 | - | - | 72 | 152 |
| Tse Ching Leung | 80 | - | - | 72 | 152 |
| Wang Qingyi | - | - | - | 72 | 72 |
| | 1,630 | 337 | - | 2,374 | 4,341 |

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (a) DIRECTORS' EMOLUMENTS (Continued)

2010

| | Fees HK$'000 | Salaries, allowance and benefits HK$'000 | Performance related bonus HK$'000 | Equity-settled share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Wong Kam Leong | 240 | 213 | 3,500 | 626 | 4,579 |
| Li Jie Yi | 240 | – | – | 120 | 360 |
| Wu Bingxiang (appointed on 1 September 2009) | 140 | – | – | 1,242 | 1,382 |
| Hu Dongguang (appointed on 18 January 2010) | 72 | – | – | 1,628 | 1,700 |
| Zhang Chi (appointed on 18 January 2010 and resigned on 29 April 2011) | 21 | – | – | – | 21 |
| Yip Wai Ki (resigned on 18 January 2010) | 100 | – | – | 182 | 282 |
| **Independent non-executive directors** | | | | | |
| Ng Kwok Chu, Winfield | 80 | – | – | – | 80 |
| Ng Chau Tung, Robert | 80 | – | – | – | 80 |
| Tse Ching Leung (appointed on 1 September 2009) | 47 | – | – | 80 | 127 |
| Wang Qingyi (appointed on 18 January 2010) | – | – | – | – | – |
| Cheng Tze Kit Larry (resigned on 1 September 2009) | 33 | – | – | – | 33 |
| | 1,053 | 213 | 3,500 | 3,878 | 8,644 |

During the year, no emoluments were paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. (2010: Nil). None of the directors waived any remuneration during both years.

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2010: three) directors whose emoluments are reflected in the analysis presented above.

The emoluments paid and payable to the remaining three (2010: two) individuals for the year ended 31 March 2011 are as follows:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Salaries, bonus and allowances | **810** | – |
| Employee share options benefits | **3,475** | 1,846 |
| Retirement scheme contributions | **48** | – |
| | **4,333** | 1,846 |

The emoluments of the non-director highest paid individuals fell within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2011** | 2010 |
| Nil to HK$1,000,000 | **–** | 2 |
| HK$1,000,001 – HK$1,500,000 | **3** | – |
| | **3** | 2 |

## 12. DIVIDENDS

No dividend has been paid, declared or recommended for payment by the directors of the Company during the year or since the end of the reporting period (2010: nil).

## 13. LOSS PER SHARE

### FOR CONTINUING AND DISCONTINUED OPERATIONS

The calculation of the basic and diluted loss per share is based on:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Loss attributable to owners of the Company | **(26,870)** | (45,026) |

| | **2011 '000** | 2010 '000 |
|---|---|---|
| Weighted average number of ordinary shares in issue | **1,521,570** | 902,556 |

The basic and diluted loss per share are the same for years ended 31 March 2011 and 2010 respectively, as the Group recorded loss attributable to owners of the Company. Hence, the effect of any incremental shares from the assumed exercises of share options, warrants and convertible note/bonds outstanding as at 31 March 2011 and 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

### FROM CONTINUING OPERATIONS

The calculations of basic and diluted loss per share are based on:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Loss attributable to owners of the Company | **(26,870)** | (45,026) |
| Less: Profit/(loss) for the year from discontinued operations | **8,212** | (17,599) |
| Loss for the purposes of basic loss per share from continuing operations | **(35,082)** | (27,427) |

| | **2011 '000** | 2010 '000 |
|---|---|---|
| Weighted average number of ordinary shares in issue | **1,521,570** | 902,556 |

## 13. LOSS PER SHARE (Continued)

### FROM CONTINUING OPERATIONS (Continued)

The basic and diluted loss per share from continuing operations are the same for the years ended 31 March 2011 and 2010 respectively, as the Group recorded losses attributable to owners of the Company. Hence, the effect of any incremental shares from the assumed exercises of share options, warrants and convertible note/bonds outstanding as at 31 March 2011 and 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

### FROM DISCONTINUED OPERATIONS

Basic earnings per share from discontinued operations is HK0.54 cents per share (2010: loss of HK1.95 cents per share) based on the profit for the year from the discontinued operations of HK$8,212,000 (2010: loss of HK$17,599,000) and the denominators detailed above.

Diluted earnings per share from discontinued operations for the year is HK0.53 cents per share based on the profit for the year from the discontinued operations of HK$8,212,000 and weighted average number of shares as detailed below:

| | '000 |
|---|---|
| Weighted average number of ordinary shares in issue | 1,521,570 |
| Effect of diluted potential ordinary shares from: | |
| – share options issued by the Company | 4,445 |
| – warrants issued by the Company | 18,851 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,544,866 |

The diluted loss per share from discontinued operations for the year ended 31 March 2010 is the same as the basic loss per share from discontinued operations as detailed above, as the Group recorded losses attributable to owners of the Company. Hence, the effect of any incremental shares from the assumed exercise of share options, warrants and convertible note/bond outstanding as at 31 March 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

## 13. LOSS PER SHARE (Continued)

### IMPACT OF CHANGES IN ACCOUNTING POLICIES

Changes in the Group's accounting policies during the year are described in detail in note 2. The table below summarises that impact on both basic and diluted loss per share:

| | Increase in loss for the year | | Increase in basic loss per share | | Increase in diluted loss per share | |
|---|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK Cent** | 2010 HK Cent | **2011 HK Cent** | 2010 HK Cent |
| **Changes in accounting policies relating to:** | | | | | | |
| – application of HKFRS 3 (revised 2008) | **(2,178)** | – | **(0.143)** | – | **(0.143)** | – |

## 14. SEGMENT INFORMATION

The group manages its businesses by divisions, which are organised by a business lines (products and services) in a manner consistent with the way in which information is reported internally to the Board of Directors of the Company, being the chief operating decision maker, for their decisions about resources allocation to the Group's business components and review of these components' performance.

The Group has the following continuing operating segments:

(i) Paper products – manufacturing, processing and sales of package and paper products;

(ii) Biodegradable products – manufacturing, processing and sales of biodegradable products; and

(iii) Money-lending business.

In prior years, the Group was involved in the following operating segments which were discontinued during the year ended 31 March 2011. The segment information does not include any amounts for these discontinued operations.

(iv) Information technology – sales and implementation of customized software and related computer equipment, and the provision of computer-related technical support and maintenance services;

(v) Macau casino junket profit sharing – sharing of profits of a junket representative of a VIP lounge in a casino in Macau, being 0.4% of the rolling turnover generated by that junket representative together with any bonus payable by that casino and/or that VIP lounge to that junket representative; and

## 14. SEGMENT INFORMATION (Continued)

There were no sales or other transactions between the operating segments.

The segments are managed separately as each business offers different products and services. The accounting policies of the operating segments are the same as those described in the basis of preparation of the financial statements and significant accounting policies.

The following is an analysis of the Group's revenue from its major products and services:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Package and paper products | **288,237** | 155,417 |
| Interest income from money-lending operation | **733** | 1,330 |
| | **288,970** | 156,747 |

### (a) SEGMENT RESULTS, ASSETS AND LIABILITIES

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment assets include all tangible, intangible assets, loan receivable and other current assets. Segment liabilities include trade payables, bank acceptance notes, other payables, payable for plant and equipment, loans, with exception of provision for taxation and deferred tax liabilities.

The measurement used for reporting segment profit is "adjusted operating profit/(loss)". To arrive at "adjusted operating profit/(loss)", the Group's profit/(loss) are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other corporate expenses and administration costs. Taxation charge is not allocated to reporting segments.

## 14. SEGMENT INFORMATION (Continued)

### (a) SEGMENT RESULTS, ASSETS AND LIABILITIES (Continued)

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2011 and 2010 is set out below.

**Year ended 31 March 2011**

**Continuing operations**

| | Paper products HK$'000 | Money-lending HK$'000 | Biodegradable products HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | **288,237** | **733** | **–** | **288,970** |
| **Segment profit/(loss)** | **12,475** | **(689)** | **(10,594)** | **1,192** |
| **Segment assets** | **436,356** | **4,743** | **411,463** | **852,562** |
| **Segment liabilities** | **154,886** | **103** | **50,779** | **205,768** |
| **Other information** | | | | |
| Depreciation and amortisation | **1,398** | **1** | **9,348** | **10,747** |
| Capital expenditure | **12,493** | **–** | **3,412** | **15,905** |

Year ended 31 March 2010

Continuing operations

| | Paper products HK$'000 | Money-lending HK$'000 | Biodegradable products HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 155,417 | 1,330 | – | 156,747 |
| **Segment profit/(loss)** | 1,469 | (283) | – | 1,186 |
| **Segment assets** | 425,917 | 37,461 | – | 463,378 |
| **Segment liabilities** | 191,595 | 695 | – | 192,290 |
| **Other information** | | | | |
| Depreciation and amortisation | 14,606 | 2 | – | 14,608 |
| Capital expenditure | 9,709 | 6 | – | 9,715 |

## 14. SEGMENT INFORMATION (Continued)

### (b) RECONCILIATION OF REPORTABLE SEGMENT REVENUE, PROFIT OR LOSS, ASSETS AND LIABILITIES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| **Revenue** | | |
| Total reportable segment revenue | **288,970** | 156,747 |
| Consolidated turnover | **288,970** | 156,747 |
| **Loss** | | |
| Total reportable segment profit derived from the Group's external customers | **1,192** | 1,186 |
| Finance costs | **(18,129)** | (9,203) |
| Unallocated income | **7,781** | 5,748 |
| Unallocated corporate expenses | **(27,069)** | (24,172) |
| Consolidated loss before taxation | **(36,225)** | (26,441) |
| **Assets** | | |
| Total reportable segment assets | **852,562** | 463,378 |
| Available-for-sale financial assets | **180** | 180 |
| Discontinued operations | **–** | 885 |
| Unallocated corporate assets | **13,493** | 18,745 |
| Consolidated total assets | **866,235** | 483,188 |
| **Liabilities** | | |
| Total reportable segment liabilities | **205,768** | 192,290 |
| Deferred tax liabilities | **50,022** | 1,434 |
| Convertible bonds | **16,603** | 31,489 |
| Promissory note | **–** | 40,000 |
| Convertible note | **36,135** | – |
| Derivative financial instruments | **49,268** | – |
| Discontinued operations | **–** | 6,620 |
| Unallocated corporate liabilities | **6,760** | 18,860 |
| Consolidated total liabilities | **364,556** | 290,693 |

## 14. SEGMENT INFORMATION (Continued)

### (c) GEOGRAPHICAL INFORMATION

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers is refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include property, plant and equipment, prepaid lease payments, intangible assets, goodwill, deposit for acquisition, loans receivable. The geographical location of property, plant and equipment, prepaid lease payments, deposit for acquisition and loans receivable is based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which these intangibles are allocated.

The following table presents an analysis of the Group's revenue from external customers according to the geographical locations where those customers are located:

| | **2011 HK$'000** | 2010 HK$'000 (restated) |
|---|---|---|
| Continuing operations | | |
| PRC | **288,237** | 155,417 |
| Hong Kong (place of domicile) | **733** | 1,330 |
| | **288,970** | 156,747 |

The following table presents an analysis of the Group's non-current assets (other than financial instruments) according to the geographical areas where those assets are located:

| | **2011 HK$'000** | 2010 HK$'000 (restated) |
|---|---|---|
| Continuing operations | | |
| PRC | **653,409** | 269,341 |
| Hong Kong | **1,691** | 2,651 |
| Unallocated – Deposit for acquisition of subsidiaries | **–** | 10,000 |
| | **655,100** | 281,992 |

## 14. SEGMENT INFORMATION (Continued)

### (d) INFORMATION ABOUT MAJOR CUSTOMERS

During the year ended 31 March 2011, one customer accounted for approximately HK$41,179,000 (2010: HK$18,494,000) of the Group's revenue, which was attributed to the paper products segment. Save as aforesaid, no other external customers accounted for 10% or more of the Group's revenue for the years ended 31 March 2011 or 2010.

## 15. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Buildings | Plant and machinery | Leasehold improvements | Furniture and fixtures | Computer equipment | Motor vehicles | Display gemstones | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | | | | | | | |
| At 1 April 2009 | – | – | 2,381 | 1,158 | 2,657 | – | 3,996 | – | 10,192 |
| Acquisition of subsidiaries | 43,762 | 128,654 | – | – | – | – | – | – | 172,416 |
| Additions | – | 8,967 | 355 | 162 | 30 | 250 | – | – | 9,764 |
| Exchange realignment | 371 | 1,045 | – | – | – | – | – | – | 1,416 |
| At 31 March 2010 and 1 April 2010 | 44,133 | 138,666 | 2,736 | 1,320 | 2,687 | 250 | 3,996 | – | 193,788 |
| Acquisition of subsidiaries | – | 3,836 | – | – | – | 321 | – | – | 4,157 |
| Derecognised on disposal of subsidiaries | – | – | (15) | (749) | (2,625) | – | – | – | (3,389) |
| Additions | – | 8,638 | 540 | 263 | – | 1,761 | – | 5,063 | 16,265 |
| Disposal | – | – | (337) | – | – | – | – | – | (337) |
| Exchange realignment | 1,435 | 4,812 | 34 | 10 | 3 | 58 | – | – | 6,352 |
| **At 31 March 2011** | **45,568** | **155,952** | **2,958** | **844** | **65** | **2,390** | **3,996** | **5,063** | **216,836** |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| At 1 April 2009 | – | – | 782 | 1,105 | 2,519 | – | 2,465 | – | 6,871 |
| Charges for the year | 1,957 | 12,421 | 888 | 28 | 103 | 14 | – | – | 15,411 |
| Exchange realignment | (48) | (352) | – | – | – | – | – | – | (400) |
| At 31 March 2010 and 1 April 2010 | 1,909 | 12,069 | 1,670 | 1,133 | 2,622 | 14 | 2,465 | – | 21,882 |
| Charges for the year | 2,152 | 13,454 | 769 | 43 | 33 | 42 | – | – | 16,493 |
| Derecognised on disposal of subsidiaries | – | – | (15) | (749) | (2,602) | – | – | – | (3,366) |
| Exchange realignment | 114 | 718 | 21 | 1 | – | 1 | – | – | 855 |
| **At 31 March 2011** | **4,175** | **26,241** | **2,445** | **428** | **53** | **57** | **2,465** | **-** | **35,864** |
| **Carrying amount** | | | | | | | | | |
| **At 31 March 2011** | **41,393** | **129,711** | **513** | **416** | **12** | **2,333** | **1,531** | **5,063** | **180,972** |
| At 31 March 2010 | 42,224 | 126,597 | 1,066 | 187 | 65 | 236 | 1,531 | – | 171,906 |

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

Notes:

(i) As of 31 March 2011, the Group's buildings with a total carrying amount of approximately HK$41,393,000 (2010: HK$42,224,000) were pledged as security against the Group's bank loans (see note 33).

(ii) The Group's buildings are situated on leasehold land held on medium-term leases in the PRC.

## 16. PREPAID LEASE PAYMENTS

| | **The Group** HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2010 | – |
| Acquisition of subsidiaries | 19,491 |
| Exchange realignment | 399 |
| At 31 March 2010 and 1 April 2010 | 19,890 |
| Exchange realignment | 630 |
| **At 31 March 2011** | **20,520** |
| **Accumulated amortisation** | |
| At 1 April 2010 | – |
| Amortisation for the year | 481 |
| Exchange realignment | (12) |
| At 31 March 2010 and 1 April 2010 | 469 |
| Amortisation for the year | 480 |
| Exchange realignment | 10 |
| **At 31 March 2011** | **959** |
| **Carrying amount** | |
| **At 31 March 2011** | **19,561** |
| At 31 March 2010 | 19,421 |

## 16. PREPAID LEASE PAYMENTS (Continued)

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current assets (included in other receivables) | **480** | 480 |
| Non-current assets | **19,081** | 18,941 |
| | **19,561** | 19,421 |

Notes:

(i) The Group's prepaid lease payments represent land use rights in the PRC under medium-term leases.

(ii) As of 31 March 2011 and 2010, all of the Group's land use rights were pledged as security against bank loans (note 33).

## 17. GOODWILL

### THE GROUP

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2009 | 63,466 |
| Acquisition of subsidiaries (note 42(b)) | 80,877 |
| At 31 March 2010 and 1 April 2010 | 144,343 |
| Acquisition of subsidiaries (note 42(a)) | 86,679 |
| Disposal of subsidiaries | (63,376) |
| Adjustment arising from contingent consideration (note 17(a)) | (22,000) |
| Exchange realignment | 5,424 |
| **At 31 March 2011** | **151,070** |
| **Impairment** | |
| At 1 April 2009 | 47,576 |
| Impairment loss recognised | 15,800 |
| At 31 March 2010 and 1 April 2010 | 63,376 |
| Eliminated on disposal of subsidiaries | (63,376) |
| **At 31 March 2011** | **–** |
| **Carrying amount** | |
| **At 31 March 2011** | **151,070** |
| At 31 March 2010 | 80,967 |

## 17. GOODWILL (Continued)

### (a) ADJUSTMENT ON GOODWILL

The amount represented adjustments on the cost of business combination in relation to the profit guarantee arising from the acquisition of the entire equity interest in the Mega Bright Investment Development Limited. Details of which are disclosed in note 42(b).

### (b) IMPAIRMENT TESTS FOR GOODWILL

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

– Biodegradable products operation
– Money-lending operation
– Macau casino junket profit sharing operation
– Paper products operation

Before recognition of impairment losses, the carrying amount of goodwill (other than goodwill relating to discontinued operations), has been allocated to the Group's cash-generating units (CGU) identified according to the Group's operating segments as follows:

| | | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|---|
| Biodegradable products operation | (i) | **88,766** | – |
| Money-lending operation | (iii) | **90** | 90 |
| Macau casino junket profit sharing operation | (ii) | **–** | – |
| Paper products operation | (i) | **62,214** | 80,877 |
| | | **151,070** | 80,967 |

## 17. GOODWILL (Continued)

### (b) IMPAIRMENT TESTS FOR GOODWILL (Continued)

#### (i) Biodegradable products operation and paper products operation

The recoverable amounts of these CGU are determined based on value-in-use calculations and with reference to valuation reports prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, using key assumptions as follows:

| | Biodegradable products operation | | Paper products operation | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Estimated growth rate | **3%** | N/A | **3%** | 2.69% |
| Discount rate | **26.00%** | N/A | **20.35%** | 23.90% |

Weighted average cost of capital has been adopted to estimate the discount rates and to arrive at the opportunity cost of capital of equity funds (i.e., cost of equity), the valuer has adopted the market-derived discount rate by the Capital Asset Pricing Model by using market data of other listed companies with a similar business. The estimated growth rate for the paper products segment and biodegradable products segment are based on the historical Consumer Price Index of the PRC for which the directors considered does not exceed the long-term average growth rate for such industry.

#### (ii) Macau casino junket profit sharing operation

The directors, by estimating the recoverable amount of the CGU of sharing of profits of a Macau casino junket representative, considered the goodwill allocated to this segment fully impaired as of 31 March 2010, and therefore recognised an impairment loss of HK$15,800,000 for the year ended 31 March 2010. It occurred as the market conditions of the gaming and entertainment industry in Macau had remained unfavorable and the results of the Macau casino junket profit-sharing segment continued to deteriorate. The Macau casino junket profit sharing segment had been discontinued in the current year.

#### (iii) Money-lending operation

The directors considered the recoverable amount of the CGU of money-lending operation was above the goodwill allocated to this segment for both years.

## 18. INTANGIBLE ASSETS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Cost:** | | |
| Acquisition of a subsidiary (Note 42(a)) | **247,675** | – |
| Exchange realignment | **6,105** | – |
| At 31 March | **253,780** | – |
| **Accumulated amortisation:** | | |
| Charge for the year | **9,116** | – |
| Exchange realignment | **219** | – |
| At 31 March | **9,335** | – |
| **Carrying amount** | | |
| At 31 March | **244,445** | – |

Intangible assets represents the right to use two patents of intellectual property in relation to biodegradable materials as licensed by the non-controlling interests of the Company pursuant to the patent license agreement for the development and production of biodegradable products.

The patents have finite useful lives and are amortised on a straight-line basis over 10 to 15 years, being the term of the patent use right or the operating period as per business license of the relevant subsidiaries, whichever is a shorter period. The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of comprehensive income.

### IMPAIRMENT TESTS FOR INTANGIBLE ASSETS

The recoverable amounts of the intangible assets are determined based on value-in-use calculations and with reference to valuation reports prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. These calculations use cash flow projections based on financial budgets approved by management covering a period of 10 to 15 years, using key assumptions of estimated growth rate and a discount rate of 3% and 26.97% respectively.

Income approach has been adopted and the valuer has used the discounted cash flow analysis, namely the Multi-period Excess Earnings Method to identify the indication value of the intangible assets. Capital Asset Pricing Model has been adopted to estimate the discount rates using market data of other listed companies with a similar business. The estimated growth rate is based on the Historical Consumer Price Index of the PRC.

## 19. INTERESTS IN SUBSIDIARIES

| | Company | | |
|---|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 (restated) | 2009 HK$'000 (restated) |
| Unlisted investments, at cost | **1** | 63,795 | 63,795 |
| Less: Accumulated impairment losses | **–** | (63,794) | (47,994) |
| | **1** | 1 | 15,801 |

The following is a list of the Group's principal subsidiaries as of 31 March 2011:

| Name | Place of establishment/ incorporation/ operation | Particulars of issued share capital/ paid-up capital | Proportion of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Cherry Oasis (Far East) Limited | Hong Kong | 1 ordinary share of HK$1 each | 100% | – | Investment holding |
| Success Finance Limited | Hong Kong | 55,000,000 ordinary shares of HK$1 each | – | 100% | Money-lending business |
| Glory Smile Enterprises Limited | British Virgin Islands | 1 ordinary share of US$1 each | 100% | – | Investment holding |
| Mega Bright Investment Development Limited | Hong Kong | 1ordinary share of HK$1 each | – | 100% | Investment holding |
| Jining Gangning Paper Company Limited (note19(ii)) | People's Republic of China ("PRC") | Paid-up capital of US$20,947,600 | – | 51% | Manufacturing, processing and sales of package and other paper products |
| Fast Rise Development Limited | British Virgin Islands | 1 ordinary share of US$ 1 each | 100% | – | Investment holding |

## 19. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of establishment/ incorporation/ operation | Particulars of issued share capital/ paid-up capital | Proportion of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Ever Stable Holdings Limited | British Virgin Islands | 100 ordinary shares of US$ 1 each | – | 100% | Investment holding |
| World Champion Investment Limited | Hong Kong | 1 ordinary share of HK$ 1 each | – | 100% | Investment holding |
| Dongguan Jiu He Bioplastics Company Limited (note19(ii)) | PRC | Paid-up capital of US$3,440,474 | – | 60% | Development, production and sales of biodegradable resin and related products |
| Zhongshan Jiu He Bioplastics Company Limited (note19(iii)) | PRC | Paid-up capital of US$641,906 | – | 60% | Development, production and sales of biodegradable resin and related products |
| Rich Year Enterprises Limited | British Virgin Islands | 1 ordinary share of US$ 1 each | 100% | – | Investment holding |

Notes:

(i) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(ii) A sino-foreign equity joint venture incorporated in the PRC with limited liability.

(iii) A wholly-owned foreign enterprise with limited liability incorporated in the PRC.

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Non-current** | | |
| Club membership, at cost | **180** | 180 |

The unlisted investment represents a club membership which does not have a quoted market price in an active market and the directors of the Company are of the opinion that the fair value cannot be measured reliably. As a result, the club membership is measured at cost less impairment at the end of the reporting period.

## 21. DEPOSIT FOR ACQUISITION

(a) Deposit of HK$59,532,000 as at 31 March 2011 represents the PRC deposit paid by the Company's subsidiary for the acquisition of land in Jining, Shandong for expansion of its paper manufacturing business and acquisition of plant and equipment for setting up the biodegradable manufacturing business in Zhongshan the PRC.

(b) Deposit of HK$10,000,000 as at 31 March 2010 represented the refundable deposit paid by the Company under a conditional share transfer agreement dated 26 March 2010 entered into by Far Rise Development Limited ("Far Rise"), a wholly-owned subsidiary of the Group, and an unrelated seller for acquisition of Ever Stable. See Note 42(a) "Ever Stable Acquisition" for details.

## 22. LOANS RECEIVABLE

Loans receivable related to the Group's money-lending operation during the year. Interest rates and credit periods are offered based on the assessment of a number of factors including the borrowers' creditworthiness and repayment ability, collaterals as well as the general economic trends.

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Secured loans receivable | **–** | 1,290 |
| Unsecured loans receivable | **3,195** | 5,273 |
| | **3,195** | 6,563 |
| Less: Allowance for impairment | **(656)** | (656) |
| | **2,539** | 5,907 |

At 31 March 2011, the Groups holds the title to certain market securities held as collaterals for the secured loans receivable. At 31 March 2010, the Group hold second charges on certain properties with an estimated fair value of HK$8,180,000 and title to certain motor vehicles held as collaterals for the secured loans receivable.

## 22. LOANS RECEIVABLE (Continued)

### (a) AGING ANALYSIS

The loans receivable at the end of the reporting period carry interest at fixed rates and are analysed by the remaining periods to their contractual maturity dates as follows:

| | Group | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 |
| Repayable: | | |
| – On demand | **839** | 3,377 |
| – Within three months | **177** | 724 |
| – In three to six months | **300** | 1,302 |
| – In six months to one year | **1,223** | 283 |
| – In one to two years | **–** | 221 |
| Total | **2,539** | 5,907 |
| Amount classified as current assets | **2,539** | 5,686 |
| Amount classified as non-current assets | **–** | 221 |

### (b) IMPAIRMENT OF LOANS RECEIVABLE

Loans receivable of HK$656,000 that are determined to be individually impaired as at 31 March 2011 (2010: HK$656,000) relates to several independent borrowers who have defaulted in payments.

Movements in the allowance for impairment are as follows:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| At beginning of year | **656** | 656 |
| Impairment losses recognized | **–** | – |
| At end of year | **656** | 656 |

Impairment losses in respect of loans receivable are recorded using an allowance account unless the Company considers that the recovery of an amount is remote, in which case, an impairment loss is recognised by directly writing down the carrying amount of the loans receivable.

## 22. LOANS RECEIVABLE (Continued)

### (c) LOANS RECEIVABLE THAT ARE NOT IMPAIRED

The ageing analysis of past due but not impaired loans receivable is as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Past due but not impaired: | | |
| – Less than three months past due | **298** | 2,166 |
| – Over three months but within six months past due | **–** | 35 |
| – Over six months past due | **–** | 821 |
| – Over 1 year past due | **541** | 355 |
| | **839** | 3,377 |
| Neither past due nor impaired | **1,700** | 2,530 |
| | **2,539** | 5,907 |

The past due but not impaired loans receivable as at 31 March 2011 and 2010 relate to several borrowers. The directors have assessed that no allowance was required for these loans based on the Group's review of the borrowers' creditworthiness and their settlement status subsequent to the end of the reporting period.

## 23. INVENTORIES

| | **Group** | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Raw materials | **15,540** | 8,298 |
| Work-in-progress | **2,320** | 2,705 |
| Finished goods | **3,237** | 2,374 |
| | **21,097** | 13,377 |

## 23. INVENTORIES (Continued)

The analysis of the amount of inventories recognised as an expense is as follows:

| | Group | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 (restated) |
| Carrying amount of inventories sold | **262,012** | 144,782 |

All of the inventories are expected to be recovered within one year.

## 24. TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 |
| Trade receivables | **8,460** | 19,967 |
| Bank acceptance notes receivable | **3,334** | 2,481 |
| Less: Allowance for impairment | **–** | (3,041) |
| | **11,794** | 19,407 |

As of 31 March 2011, approximately HK$Nil (2010: HK$1,432,000) of bank acceptance notes receivable was pledged for the bank acceptable notes payable.

All of the trade receivables are expected to be recovered within one year.

## 24. TRADE RECEIVABLES (Continued)

### (a) AGE ANALYSIS

The ageing analysis of trade receivables based on invoice date, net of allowance, is as follows:

| | Group | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Within three months | **11,268** | 9,768 |
| Over three months but within six months | **473** | 4,235 |
| Over six months but within one year | **40** | 5,366 |
| Over one year but within two years | **13** | 38 |
| | **11,794** | 19,407 |

Trade debtors and bills receivable are due within 1 to 3 months from the date of billing.

### (b) IMPAIRMENT OF TRADE RECEIVABLES

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for impairment of doubtful debts during the year, including both specific and collective loss components, is as follows:

| | Group | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| At beginning of year | **3,041** | 2,916 |
| Impairment losses recognised | **–** | 125 |
| Derecognised on disposal of subsidiaries | **(3,041)** | – |
| At end of year | **–** | 3,041 |

At 31 March 2010, the individually impaired receivables related to customers that were in unexpected difficult financial situations and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for impairment of doubtful debts of HK$3,041,000 were recognised. The group does not hold any collateral over these balances.

## 24. TRADE RECEIVABLES (Continued)

### (c) TRADE RECEIVABLES THAT ARE NOT IMPAIRED

The ageing analysis of the receivables that are past due but not impaired, along with receivables that are neither past due nor impaired, is as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Past due but not impaired: | | |
| – Less than three months past due | **345** | 2,365 |
| – Over three months but within six months past due | **304** | 5,254 |
| – Over six months past due | **33** | 3,678 |
| – Over 1 year past due | **13** | 38 |
| | **695** | 11,335 |
| Neither past due nor impaired | **11,099** | 8,072 |
| | **11,794** | 19,407 |

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

Included in the Group's trade receivables as at 31 March 2011 are debtors with an aggregate carrying amount of HK$695,000 (2010: HK$11,335,000) which are past due but not impaired at the end of the reporting period, as the directors have assessed these debtors to be recoverable based on their settlement records relate to a number of independent customers that have a good track record with the group. The Group does not hold any collateral over these balances.

Trade receivables that are neither past due nor impaired related to a number of independent customers who have no recent history of default. The Group does not hold any collateral over these balances.

## 25. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Prepayment, deposits and other receivables (note 25 (a)) | **51,567** | 36,669 |
| Receivable from vendor of Mega Bright Acquisition (note 25 (b)) | **–** | 71,604 |
| Receivable from vendor of Ever Stable Acquisition (note 25 (c)) | **53,499** | – |
| | **105,066** | 108,273 |

Notes:

(a) Prepayment, deposits and other receivables represents:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Prepayment, deposits and other receivables | | |
| – Current portion of prepaid lease payment | **480** | 480 |
| – Deposits for purchases | **49,256** | 33,443 |
| – Deposits for rental and utilities | **1,166** | 675 |
| – Prepayment | **578** | 900 |
| – Other receivables | **87** | 1,171 |
| | **51,567** | 36,669 |

| | Company | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| Prepayment, deposits and other receivables | | | |
| – Prepayment | **–** | 329 | – |
| – Other receivables | **5** | 29 | – |
| | **5** | 358 | – |

(i) Prepayment, deposits and other receivables are expected to be recovered or recognized as expense within one year.

## 25. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) As disclosed in note 42 (b), receivable from the vendor of the Mega Bright Acquisition arose as a result of the vendor's undertaking as shareholder of Mega Bright to inject his proportionate share of paid-up capital of Jining Gangning up to an amount of US$28 million. As of 31 March 2010, Jining Gangning had a paid-up capital of US$10 million. Accordingly, the vendor is committed to inject an additional amount of US$9,180,000 (equivalent to approximately HK$71,604,000) to the capital of Jining Gangning. The convertible bonds (note 36) and the promissory notes (note 35) are held in escrow by the legal adviser of the Company until such capital injection into Jining Gangning is completed.

(c) As disclosed in note 42 (a), receivable from the vendor of the Ever Stable Acquisition arose as a result of the vendor's undertaking as shareholder of Ever Stable to guarantee and procure up to 60% of the proposed aggregate paid-up capital of Dongguan Jiu He and Zhongshan Jiu He of not less than US$17,000,000 on or before 30 June 2013. As of 31 March 2011, the vendor of Ever Stable Acquisition has injected US$2,526,000 (approximately equivalent to HK$19,659,000) into Dongguan Jiu He. Accordingly, the vendor is committed to injecting an additional amount of US$7,674,000 (approximately equivalent to HK$59,545,000) to the capital of Dongguan Jiu He and Zhongshan Jiu He in aggregate. The receivable from vendor of the Ever Stable Acquisition of HK$53,499,000 represents the fair value as at 31 March 2011 of the gross contractual amount of receivable amounted to HK$59,545,000 as determined by LCH (Asia-Pacific) Surveyors Limited.

The consideration shares of 216,000,000 ordinary shares issued on 22 March 2011 (note 40 (b)(vi)) are held in escrow by the legal adviser of the Company until such capital injection into Dongguan Jiu He and Zhongshan Jiu He is complete.

## 26. AMOUNTS DUE FROM/TO SUBSIDIARIES

### (a) AMOUNTS DUE FROM SUBSIDIARIES

| | **2011 HK$'000** | 2010 HK$'000 (restated) | 2009 HK$'000 (restated) |
|---|---|---|---|
| Amounts due from subsidiaries | **501,271** | 264,878 | 75,804 |
| Less: Impairment loss | **–** | (29,208) | (29,479) |
| | **501,271** | 235,670 | 46,325 |

Amounts due from subsidiaries are unsecured, interest-free. The directors consider that the amounts are not repayable within one year.

**(b)** Amounts due to subsidiaries are unsecured and interest-free. The amounts are not repayable within one year.

## 27. TERM DEPOSITS

The term deposits have maturity of four months and carry fixed-rate interest of 5% and 8% per annum. Full principal amount will be repaid on maturity dates, subject to renewal at the Group's request. For the year ended 31 March 2011, the Group recorded total interest income of HK$374,000 (2010: HK$1,487,000), calculated using the effective interest method.

## 28. CASH AND CASH EQUIVALENTS

| | **Group** | | **Company** | | |
|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | 2009 HK$'000 |
| Cash at banks and in hand | **24,605** | 9,081 | **12,587** | 6,790 | 1,136 |

At the end of the reporting period, the cash and bank balances of the Group, which are denominated in Renminbi ("RMB"), amounted to approximately HK$10,518,000 (2010: HK$1,812,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The interest rates on the cash at bank and deposits with banks ranged from 0.36% to 1.98% (2010: 0.36%) per annum.

## 29. TRADE PAYABLES AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Trade payables | **19,004** | 23,762 |
| Other payables | | |
| – Accruals | **11,711** | 10,755 |
| – Other payables | **12,582** | 7,709 |
| – Customers deposit | **2,222** | 16,888 |
| – Payable for acquisition of property, plant and equipment | **6,010** | 1,383 |
| – Amount due to non-controlling interests | **44,159** | – |
| – Amount due to a director | **134** | 2,516 |
| | **76,818** | 39,251 |

| | Company | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| Other payables | | | |
| – Accruals | **1,248** | 2,480 | 1,334 |
| – Other payables | **1,081** | – | – |
| | **2,329** | 2,480 | 1,334 |

Notes:

(i) All of the trade and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

(ii) Amounts due to non-controlling interests and a director are unsecured, interest-free and repayable on demand.

## 29. TRADE PAYABLES AND OTHER PAYABLES (Continued)

Notes: (Continued)

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

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within three months | **16,393** | 12,501 |
| Over three months but within six months | **1,302** | 4,520 |
| Over six months but within one year | **1,028** | 5,098 |
| Over one year but within two years | **281** | 1,643 |
| | **19,004** | 23,762 |

## 30. PLEDGED BANK DEPOSITS AND BANK ACCEPTANCE NOTES PAYABLE

As at 31 March 2011, note payables represented bank acceptance notes issued by the Group with maturity within six months. It was secured by pledged deposits of HK$45,854,000 (2010: HK$16,149,000) and bank acceptance notes receivable of HK$Nil (2010: HK$1,432,000) (note 24).

## 31. SUBSCRIPTION RECEIVED

As at 31 March 2010, subscription received represented the amounts received from the subscribers pursuant to the placing agreements dated 10 February 2010 whereby the Company conditionally agreed to issue and allot to the subscribers 159,110,000 new ordinary shares of HK$0.04 each of the Company ("Placing Shares") at a subscription price of HK$0.22 per share, for aggregate gross proceeds of approximately HK$35,004,000. The placing agreements were conditional upon (i) the GEM Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the Placing Shares; (ii) the approval of the shareholders of the Company in general meeting; (iii) the execution of a sale and purchase agreement for the Ever Stable Acquisition, details of which are set out in Note 42(a); and (iv) all approvals and consents required for the placing. The placing agreements and the allotment of the Placing Shares were completed on 12 April 2010.

## 32. PAYABLE FOR PLANT AND EQUIPMENT

Payable for plant and equipment represents the balance of the purchase price payable by the Group for the acquisition of certain production plant and equipment pursuant to an assets transfer agreement dated 16 January 2009. This payable was unsecured, non-interest bearing and repaid in November 2010.

## 33. INTEREST-BEARING LOANS

| | Group | | | |
|---|---|---|---|---|
| | **Effective interest rate %** | **2011 HK$'000** | Effective interest rate % | 2010 HK$'000 |
| Entrustment loan (note 33(i)) | **10.73%** | **18,755** | 10.73% | 23,070 |
| Unsecured bank loan (note 33(ii)) | **11.62%** | **3,573** | – | – |
| Secured bank loans (note 33(iii)) | **5.37% to 9.88%** | **27,989** | 4.86 to 8.5% | 26,069 |
| | | **50,317** | | 49,139 |
| Carrying amount repayable: | | | | |
| – within 1 year | | **43,395** | | 30,974 |
| – after 1 year but within 2 years | | **6,922** | | 11,461 |
| – after 2 years but within 5 years | | **-** | | 6,704 |
| Total | | **50,317** | | 49,139 |
| Amount classified as current liabilities | | **(43,395)** | | (30,974) |
| Amount classified as non-current liabilities | | **6,922** | | 18,165 |

Note:

(i) The entrustment loan granted to the Group is secured by a charge over the same amount of fund placed with the bank by an independent third party of the Group and repayable within 3 years.

(ii) The unsecured bank loan granted to the Group is guaranteed by a customer and an independent third party.

(iii) As at 31 March 2011, the secured bank loans are secured by legal charges over the Group's prepaid lease payments (note 16) with an aggregate carrying amount of HK$19,561,000 (2010: HK$19,421,000) and buildings (note 15) with an aggregate carrying amount of HK$41,393,000 (2010: HK$42,224,000).

## 34. DEFERRED TAX LIABILITIES

### (a) DEFERRED TAX LIABILITIES RECOGNISED:

The components of deferred tax liabilities recognised at 31 March 2011 and the movements during the years are as follows:

| | Note | Property, plant and equipment HK$'000 | Prepaid lease payment HK$'000 | Intangible assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2009 | | – | – | – | – |
| Acquisition of subsidiaries | 42(b) | 1,365 | 69 | – | 1,434 |
| At 31 March 2010 and 1 April 2010 | | 1,365 | 69 | – | 1,434 |
| Acquisition of subsidiaries | 42(a) | – | – | 49,308 | 49,308 |
| Exchange realignment | | 52 | 3 | 1,171 | 1,226 |
| Credit to profit or loss | 8 | (128) | (3) | (1,815) | (1,946) |
| **At 31 March 2011** | | **1,289** | **69** | **48,664** | **50,022** |

### (b) DEFERRED TAX ASSETS/LIABILITIES NOT RECOGNISED:

The Group has not recognised deferred tax asset in respect of the following temporary differences:

| | Group | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Tax losses that may be carried forward indefinitely | **1,285** | 5,443 |
| Accelerated tax depreciation | **(132)** | (136) |
| Allowance for impairment of trade receivables | **–** | 481 |
| | **1,153** | 5,788 |

The net deferred tax assets have not been recognised in respect of the above temporary differences because it is uncertain that there will be sufficient future taxable profits to utilise the tax benefits from them. During the year, unused unrecognised tax losses, accelerated tax depreciation and allowance for impairment of trade receivables of approximately HK$25,425,000, HK$25,000 and HK$3,041,000 respectively were released upon disposal of subsidiaries.

## 34. DEFERRED TAX LIABILITIES (Continued)

### (b) DEFERRED TAX ASSETS/LIABILITIES NOT RECOGNISED: (Continued)

The PRC Corporate Income Tax Law imposes a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Under the Agreement between the PRC and the Hong Kong Special Administrative Region for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax under CaiShui [2008] No. 1 Notice on certain preferential corporate income tax policies.

Accordingly, the Company will be subject to a 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of its profits earned since 1 January 2008. At 31 March 2011 no deferred tax liabilities has been recognized in respect of such withholding tax as the Company controls the dividend policy of these subsidiaries and it has been determined that no dividend will be distributed by these subsidiaries in the foreseeable future.

## 35. PROMISSORY NOTES

Pursuant to the completion of the Mega Bright Acquisition (see Note 42(b)), on 1 September 2009, the Company issued HK$46,500,000 36-month promissory notes for the settlement of part of the consideration of the Mega Bright Acquisition. The promissory notes bear interest at 1% over the prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited. During the year ended 31 March 2010, the Company redeemed HK$6,500,000 of the promissory notes for HK$6,500,000 in cash and during the year ended 31 March 2011, the Company redeemed the remaining HK$40,000,000 promissory notes in cash. As discussed in Notes 25 and 42, the promissory notes are held in escrow by the legal adviser of the Company until the vendor's undertaking to inject additional capital into Jining Gangning is fulfilled.

The movement of the promissory notes for the year is set out below:

| | **Group and Company** | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 |
| At the beginning of the year | **40,000** | – |
| Fair value on initial recognition | **–** | 46,500 |
| Redemption during the year | **(40,000)** | (6,500) |
| At the end of the year | **–** | 40,000 |

## 36. CONVERTIBLE BONDS

Pursuant to the completion of the Mega Bright Acquisition (see Note 42(b)), on 30 September 2009, the Company issued HK$40,000,000 unsecured zero coupon convertible bonds at an initial conversion price of HK$0.48 per share (as adjusted due to the Share Consolidation as detailed in Note 40(a)(ii) and subject to anti-dilution adjustments) for settlement of part of the consideration of the Mega Bright Acquisition. The convertible bonds have a maturity of 2 years from the date of issue.

The holders of the convertible bonds have the right to convert the whole or part of the outstanding principal amount of the convertible bonds into shares of HK$0.04 each in the share capital of the Company at any time between 30 September 2009 and 29 September 2011.

The convertible bonds contain two components: liability and equity elements. The equity element is presented in equity under the heading of "convertible bond equity reserve". The liability element is classified as non-current liabilities and carried at amortised cost using the effective interest method.

The fair value of the convertible bond as a whole on initial recognition was estimated to be approximately HK$36,397,000 using the Binomial option pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Share price: | HK$0.216* |
| Conversion price: | HK$0.480* |
| Risk-free rate: | 0.63% |
| Expected dividend yield: | 0% |
| Annualised volatility: | 126.65% |

* As adjusted due to the Share Consolidation discussed in Note 40(a)(ii).

The liability component of the convertible bonds on initial recognition was estimated based on the present value of the contractual stream of cash flows using the effective interest rate of 17.53%. The equity component was assigned the residual amount of HK$7,439,000 after deducting the liability component of HK$28,958,000 from the fair value of the convertible bonds as a whole.

## 36. CONVERTIBLE BONDS (Continued)

The movement of the liability component of the convertible bonds for the year is set out below:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| At the beginning of the year | 31,489 | – |
| Fair value of the liability component on initial recognition | – | 28,958 |
| Cancelled during the year (note 42(b)) | (20,293) | |
| Imputed interest expense charged for the year (note 6) | 5,407 | 2,531 |
| At the end of the year | 16,603 | 31,489 |

Notes:

(i) Unlisted convertible bonds with a total principal amount of HK$22,000,000 were cancelled as compensation for the shortfall under the profit guarantee provided by the vendor of Mega Bright to the Company (note 42(b)). The carrying amount of the liability component carried at amortised cost of HK$20,293,000 were cancelled and a gain on extinguishment of convertible bonds of HK$1,268,000 was recognised.

(ii) As discussed in Notes 25(b) and 42(b), the convertible bonds are held in escrow by the legal adviser of the Company.

## 37. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL INSTRUMENTS

On 28 December 2010, the Company issued convertible note denominated in RMB to an independent third party in the principal amount of RMB70,000,000 (equivalent to approximately HK$81,680,280) due five years from the closing date of 10 January 2011 with the right to convert the convertible note into 474,928,028 conversion shares at the accreted principal amount and the initial conversion price of HK$0.25 (subject to adjustments and reset) per conversion share.

The conversion price will be adjusted in accordance with the relevant provisions under the terms and conditions of the convertible note. In addition to the customary adjustments, the conversion price is also subject to the reset adjustment on the price reset date whereby the conversion price will be adjusted to the lower of (i) the conversion price at the price reset date; and (ii) the average closing price per share as quoted on the stock exchange for the last thirty trading days immediately prior to and including the price reset date. Accordingly, the conversion price of the convertible note was adjusted from HK$0.25 to HK$0.194 on 28 March 2011.

The note will be redeemed by the Company on the maturity date in US$ at the US$ equivalent amount of their accreted principal amount at the maturity date, together with accrued but unpaid interest to the relevant date fixed for such redemption.

## 37. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The note bear interest at 6% per annum on the outstanding principal amount payable annually in arrears by the Company for each twelve months from the closing date and the unpaid interest shall be paid by the Company on the maturity date upon the redemption and conversion of the convertible note.

The noteholder shall each be granted a put option to require the Company to redeem the convertible note (in multiples of RMB1,000,000) in cash in US$ at the US$ equivalent amount of their accreted principal amount a gross yield to maturity identical to that applicable in the case of redemption on the maturity date, being 13% per annum (calculated on an annual basis) at the particular put option payment date, together with accrued and unpaid interest to such date.

The convertible note contains two components: liability and embedded derivatives raised from (1) put option and (2) conversion option. The liability element is classified as current liabilities and carried at amortised cost using the effective interest method. The embedded derivatives element is classified as current liabilities and carried at fair value.

In valuing the put option, the fair value of the convertible note without put options is first accessed by using the Binomial tree model. The value of the put option of the convertible note equals to the difference between the convertible note and the convertible note without put option.

The value of the conversion option equals the difference between the value of the convertible note without the put option and the fair value of the straight bond by discounting the redemption amount of the convertible note at maturity.

The initial carrying amount of the liability component is the residual amount after separating the embedded derivatives.

The fair value of the liability component, put option and conversion option on initial recognition was estimated to be approximately as follows:

| | | **Approximately equivalent to** |
|---|---|---|
| | RMB'000 | HK$'000 |
| Liability component | 27,565 | 32,164 |
| Put option | 8,138 | 9,496 |
| Conversion option | 34,297 | 40,020 |
| | 70,000 | 81,680 |

## 37. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The inputs onto the model on initial recognition and at 31 March 2011 were as follows:

| | 28/12/2010 | **31/3/2011** |
|---|---|---|
| Share price: | HK$0.178 | **HK$0.162** |
| Conversion price: | HK$0.250 | **HK$0.194** |
| Risk-free rate: | 1.79% | **1.76%** |
| Expected dividend yield: | 0% | **0%** |
| Annualised volatility: | 83% | **71%** |

The liability component of the convertible note on initial recognition was estimated based on the present value of the contractual stream of cash flows using the effective interest rate of 39.88%.

The movement of the liability component and embedded derivatives of the convertible note for the year is set out below:

| | | **Derivative financial instruments** | | |
|---|---|---|---|---|
| | **Liabilities component** | **Put option** | **Conversion option** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Fair value on initial recognition | 32,164 | 9,496 | 40,020 | 49,516 |
| Imputed interest expense charged for the year | 3,258 | – | – | – |
| Fair value change of embedded derivatives | – | (511) | (694) | (1,205) |
| Exchange realignment | 713 | 178 | 779 | 957 |
| **At 31 March 2011** | **36,135** | **9,163** | **40,105** | **49,268** |

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS

A share option scheme (the "Existing Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006 and has a term of 10 years.

The maximum aggregate number of shares permitted to be issued upon exercise of all outstanding options to be granted under the Existing Scheme was 77,444,500 (as adjusted for the Share Consolidation as disclosed in note 40(a)(ii)) representing 10% of the total number of issued shares of the Company at 11 August 2009, being the date of approval of the refreshment of the maximum limit under the Existing Scheme.

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

With the passing of the ordinary resolution, the new share option scheme (the "New Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 23 August 2010 and came into effect on 24 August 2010 with a term of 10 years.

The maximum aggregate number of shares permitted to be issued upon exercise of all outstanding options to be granted under the New Scheme is 151,894,500 representing 10% of the total number of issued shares of the Company at 23 August 2010, being the date of approval of the refreshment of the maximum limit under the New Scheme.

Under the Existing Scheme, 110,150,507 outstanding options shall continue to be valid and exercisable in accordance with the rules of the Existing Scheme. The Directors confirm that no further options will be granted under the Existing Scheme prior to the date of the annual general meeting.

As at 31 March 2011, a total of 183,200,507 shares (2010: 110,150,507 shares under the Existing Scheme) was issuable upon exercise of all share options granted under the Existing Scheme and New Scheme, which represented 7.0% (2010: 9.7%) of the Company's issued share capital at that date.

The principal terms of the Existing Scheme and the New Scheme (collectively "the Schemes") is set out as follows:

The purpose of the Schemes is to enable the Group to provide eligible participants with incentives or rewards for their contribution to the Group. Under the Schemes, the directors of the Company are authorised to grant options to the participants including any employee, director, adviser, consultant, licensors, distributors, suppliers, agents, customers, joint venture partners, strategic partners and services providers to or of any member of the Group whom the directors consider at their sole discretion to subscribe for shares of the Company.

The maximum number of shares issued and to be issued upon exercise of options granted under the Schemes to any one participant may not exceed 1% of the shares of the Company in issue from time to time in a 12-month period.

The directors of the Company may at their sole discretion determine the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the option. the Schemes do not specify a minimum period for which an option must be held. However, the board may stipulate that an option would be subject to a minimum holding period and/or a participant may have to achieve a performance target before the option and/or any other terms can be exercised in whole or in part. An offer of a grant of an option may be accepted within 14 days from the date of grant and upon payment of HK$1.

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

The exercise price of an option is determined by the directors of the Company at their sole discretion and will at least be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of an option; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is granted; and (iii) the nominal value of the Company's shares.

Movements in the share options outstanding and their related weighted average exercise prices were as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Shares underlying the options '000** | Weighted average exercise price HK$ | Shares underlying the options '000 |
| Outstanding at beginning of year* | **0.202** | **110,151** | 0.192 | 94,700 |
| Granted during the year | **0.168** | **109,050** | 0.185 | 109,150 |
| Cancelled/lapsed during the year | **–** | **–** | 0.192 | (6,250) |
| Exercised during the year | **0.165** | **(36,000)** | 0.172 | (87,449) |
| Outstanding at end of year | **0.189** | **183,201** | 0.202 | 110,151 |
| Exercisable at end of year | **0.189** | **183,201** | 0.202 | 110,151 |

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

Details of the share options outstanding under the Schemes are as follows:

| Grantee | As at 1 April 2010 | Granted during the year | Cancelled/ lapsed during the year* | Exercised during the year | As at 31 March 2011 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price* HK$ |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Guo Wanda | – | 14,000,000 | – | – | **14,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Hu Dongguang | 11,000,000 | – | – | – | **11,000,000** | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| Hu Dongguang | – | 4,000,000 | – | – | **4,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Ng Chau Tung, Robert | 250,000 | – | – | – | **250,000** | 20/02/08 | 20/02/08 to 19/02/18 | 0.244 |
| Ng Chau Tung, Robert | 250,000 | – | – | – | **250,000** | 02/05/08 | 02/05/08 to 01/05/18 | 0.196 |
| Ng Chau Tung, Robert | – | 1,000,000 | – | – | **1,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Ng Kwok Chu, Winfield | 250,000 | – | – | – | **250,000** | 20/02/08 | 20/02/08 to 19/02/18 | 0.244 |
| Ng Kwok Chu, Winfield | 250,000 | – | – | – | **250,000** | 02/05/08 | 02/05/08 to 01/05/18 | 0.196 |
| Ng Kwok Chu, Winfield | – | 1,000,000 | – | – | **1,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Tse Ching Leung | 700,000 | – | – | – | **700,000** | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Tse Ching Leung | – | 1,000,000 | – | – | **1,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Wang Qingyi | – | 1,000,000 | – | – | **1,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Wong Kam Leong | 6,750,000 | – | – | – | **6,750,000** | 09/05/08 | 09/05/08 to 08/05/18 | 0.192 |
| Wong Kam Leong | 750,000 | – | – | – | **750,000** | 18/05/09 | 18/05/09 to 17/05/19 | 0.168 |

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

Details of the share options outstanding under the Schemes are as follows: (Continued)

| Grantee | As at 1 April 2010 | Granted during the year | Cancelled/ lapsed during the year* | Exercised during the year | As at 31 March 2011 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price* HK$ |
|---|---|---|---|---|---|---|---|---|
| **Directors (Continued)** | | | | | | | | |
| Wong Kam Leong | 750,000 | – | – | – | **750,000** | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Wong Kam Leong | 3,000,000 | – | – | – | **3,000,000** | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| Wong Kam Leong | – | 3,750,000 | – | – | **3,750,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Wu Bing Xiang | 8,200,000 | – | – | – | **8,200,000** | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Wu Bing Xiang | 2,000,000 | – | – | – | **2,000,000** | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| Wu Bing Xiang | – | 3,800,000 | – | – | **3,800,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Zhang Chi | 6,500,000 | – | – | – | **6,500,000** | 31/12/08 | 31/12/08 to 30/12/18 | 0.140 |
| Zhang Chi | – | 3,500,000 | – | – | **3,500,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| Sub-total | 40,650,000 | 33,050,000 | – | – | **73,700,000** | | | |

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

Details of the share options outstanding under the Schemes are as follows: (Continued)

| Grantee | As at 1 April 2010 | Granted during the year | Cancelled/ lapsed during the year* | Exercised during the year | As at 31 March 2011 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price* HK$ |
|---|---|---|---|---|---|---|---|---|
| **Employees** | | | | | | | | |
| In aggregate | 3,500,000 | – | – | – | **3,500,000** | 20/02/08 | 20/02/08 to 19/02/18 | 0.244 |
| In aggregate | 500,000 | – | – | – | **500,000** | 22/02/08 | 22/02/08 to 21/02/18 | 0.248 |
| In aggregate | 4,500,000 | – | – | – | **4,500,000** | 02/05/08 | 02/05/08 to 01/05/18 | 0.196 |
| In aggregate | 25,000,507 | – | – | – | **25,000,507** | 09/05/08 | 09/05/08 to 08/05/18 | 0.192 |
| In aggregate # | 750,000 | – | – | – | **750,000** | 18/05/09 | 18/05/09 to 17/05/19 | 0.168 |
| In aggregate | 13,500,000 | – | – | – | **13,500,000** | 17/09/08 | 17/09/08 to 16/09/18 | 0.2024 |
| In aggregate # | 16,750,000 | – | – | (8,000,000) | **8,750,000** | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| In aggregate | 5,000,000 | – | – | – | **5,000,000** | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| In aggregate | – | 56,000,000 | – | (28,000,000) | **28,000,000** | 15/11/10 | 15/11/10 to 14/11/20 | 0.166 |
| In aggregate | – | 20,000,000 | – | – | **20,000,000** | 10/01/11 | 10/01/11 to 09/01/21 | 0.175 |
| Sub-total | 69,500,507 | 76,000,000 | – | (36,000,000) | **109,500,507** | | | |
| **Total** | 110,150,507 | 109,050,000 | – | (36,000,000) | **183,200,507** | | | |

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

Details of the share options outstanding under the Schemes are as follows: (Continued)

| Grantee | As at 1 April 2009* | Granted during the year* | Cancelled/ lapsed during the year* | Exercised during the year* | As at 31 March 2010 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price* HK$ |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Cheng Tze Kit, Larry | 1,200,000 | – | – | (1,200,000) | – | 07/07/08 | 07/07/08 to 06/07/18 | 0.144 |
| Hu Dongguang | – | 11,000,000 | – | – | 11,000,000 | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| Li Jie Yi | 6,750,000 | – | – | (6,750,000) | – | 09/05/08 | 09/05/08 to 08/05/18 | 0.192 |
| Li Jie Yi | – | 750,000 | – | (750,000) | – | 18/05/09 | 18/05/09 to 17/05/19 | 0.168 |
| Li Jie Yi | – | 750,000 | – | (750,000) | – | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Ng Kwok Chu, Winfield | 250,000 | – | – | – | 250,000 | 20/02/08 | 20/02/08 to 19/02/18 | 0.244 |
| Ng Kwok Chu, Winfield | 250,000 | – | – | – | 250,000 | 02/05/08 | 02/05/08 to 01/05/18 | 0.196 |
| Ng Chau Tung, Robert | 250,000 | – | – | – | 250,000 | 20/02/08 | 20/02/08 to 19/02/18 | 0.244 |
| Ng Chau Tung, Robert | 250,000 | – | – | – | 250,000 | 02/05/08 | 02/05/08 to 01/05//18 | 0.196 |
| Tse Ching Leung | – | 700,000 | – | – | 700,000 | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Wong Kam Leong | 6,750,000 | – | – | – | 6,750,000 | 09/05/08 | 09/05/08 to 08/05/18 | 0.192 |
| Wong Kam Leong | – | 750,000 | – | – | 750,000 | 18/05/09 | 18/05/09 to 17/05/19 | 0.168 |
| Wong Kam Leong | – | 750,000 | – | – | 750,000 | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Wong Kam Leong | – | 3,000,000 | – | – | 3,000,000 | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| Wu Bing Xiang | – | 8,200,000 | – | – | 8,200,000 | 01/09/09 | 01/09/09 to 31/08/19 | 0.160 |
| Wu Bing Xiang | – | 2,000,000 | – | – | 2,000,000 | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

Details of the share options outstanding under the Schemes are as follows: (Continued)

| Grantee | As at 1 April 2009* | Granted during the year* | Cancelled/ lapsed during the year* | Exercised during the year* | As at 31 March 2010 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price* HK$ |
|---|---|---|---|---|---|---|---|---|
| **Directors (Continued)** | | | | | | | | |
| Zhang Chi | 6,500,000 | – | – | – | 6,500,000 | 31/12/08 | 31/12/08 to 30/12/18 | 0.140 |
| Yip Wai Kai # | – | 750,000 | – | – | 750,000 | 18/05/09 | 18/05/09 to 17/05/19 | 0.168 |
| Yip Wai Kai # | – | 750,000 | – | – | 750,000 | 01/09/09 | 01/09/09 to 31/08/09 | 0.160 |
| Sub-total | 22,200,000 | 29,400,000 | – | (9,450,000) | 42,150,000 | | | |
| **Employees** | | | | | | | | |
| In aggregate | 3,500,000 | – | – | – | 3,500,000 | 20/02/08 | 20/02/08 to 19/02/18 | 0.244 |
| In aggregate | 500,000 | – | – | – | 500,000 | 22/02/08 | 22/02/08 to 21/02/18 | 0.248 |
| In aggregate | 4,500,000 | – | – | – | 4,500,000 | 02/05/08 | 02/05/08 to 01/05/18 | 0.196 |
| In aggregate | 37,500,000 | – | (6,250,000) | (6,249,493) | 25,000,507 | 09/05/08 | 09/05/08 to 08/05/18 | 0.192 |
| In aggregate | 26,500,000 | – | – | (13,000,000) | 13,500,000 | 17/09/08 | 17/09/08 to 16/09/18 | 0.2024 |
| In aggregate | – | 8,500,000 | – | (8,500,000) | – | 18/05/09 | 18/05/09 to 17/05/19 | 0.168 |
| In aggregate | – | 66,250,000 | – | (50,250,000) | 16,000,000 | 01/09/09 | 01/09/09 to 31/08/09 | 0.160 |
| In aggregate | – | 5,000,000 | – | – | 5,000,000 | 30/03/10 | 30/03/10 to 29/03/20 | 0.286 |
| Sub-total | 72,500,000 | 79,750,000 | (6,250,000) | (77,999,493) | 68,000,507 | | | |
| Total | 94,700,000 | 109,150,000 | (6,250,000) | (87,449,493) | 110,150,507 | | | |

* The number and exercise prices of the share options outstanding on 12 August 2009, being the effective date of the Share Consolidation, have been adjusted retroactively due to the Share Consolidation, details of which are set out in note 40(a)(ii).

\# Mr. Yip Wai Kai resigned as director of the Company on 18 January 2010. However, Mr. Yip Wai Kai becomes an employee to the Group and continues to be entitled to the shares options after their resignation as a director of the Company.

## 38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS AND SHARE OPTIONS (Continued)

The aggregate fair value of the share options granted during the year ended 31 March 2011 amounted to approximately HK$7,860,000 (2010: HK$9,750,000), which has fully been recognised as equity-settled share-based payments expense for the year. The fair values of the share options were estimated as at the date of grant by using the Black-Scholes options-pricing model, taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the valuation model are as follows:

| Date of grant | 20/02/08 | 22/02/08 | 02/05/08 | 09/05/08 | 07/07/08 | 17/09/08 | 31/12/08 | 18/05/09 | 01/09/09 | 30/03/10 | 15/11/10 | 10/01/11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Closing share price at date of grant (HK$) | 0.060 | 0.060 | 0.048 | 0.047 | 0.034 | 0.042 | 0.035 | 0.042 | 0.157 | 0.260 | 0.166 | 0.175 |
| Exercise price (HK$) | 0.061 | 0.062 | 0.049 | 0.048 | 0.036 | 0.0506 | 0.035 | 0.042 | 0.160 | 0.286 | 0.166 | 0.175 |
| Risk-free interest rate per annum | 2.42% | 2.40% | 2.368% | 2.373% | 3.317% | 2.389% | 1.194% | 0.83% | 1.1694% | 1.233% | 0.438% | 0.545% |
| Expected life of option (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 3 | 3 | 2 | 2 | 2 |
| Expected volatility | 112% | 112% | 83% | 83% | 84% | 88% | 97% | 119% | 103% | 115% | 89% | 85% |
| Expected dividend per annum | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Estimated fair value per share under option (HK$) | 0.0489 | 0.0497 | 0.0318 | 0.0290 | 0.0228 | 0.0263 | 0.0256 | 0.0229 | 0.0825 | 0.1476 | 0.0718 | 0.0732 |

Notes:

(i) The risk-free rate was the yield of Hong Kong Monetary Authority exchange fund notes with similar time-to-maturity to the expected term of the share options.

(ii) The expected life of share option is based on management's best estimates for the effects of non-transferability, exercise restriction and behavioral consideration. It is not necessarily indicative of the actual exercise patterns that may occur.

(iii) The expected volatility is based on the Company's historical share prices before the date of grant.

## 39. EMPLOYEE RETIREMENT BENEFITS

### DEFINED CONTRIBUTION RETIREMENT PLAN

The Group has participated in defined contribution retirement schemes established under Mandatory Provident Fund Ordinance ("MPF Schemes") for its employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of independent trustees. Under the rules of the MPF Schemes, each of the employer and its employees are generally required to make contributions to the schemes at 5% of the employee's relevant monthly income, up to a maximum of HK$1,000 per month.

## 39. EMPLOYEE RETIREMENT BENEFITS (Continued)

### DEFINED CONTRIBUTION RETIREMENT PLAN (Continued)

The employees of PRC subsidiaries of the Group are members of state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

No forfeited contributions were recognised during the year and there were no material forfeitures available to reduce the Group's future contributions at 31 March 2011 and 2010.

## 40. SHARE CAPITAL

### (a) ORDINARY SHARES

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| **Authorised** | | |
| 7,500,000,000 shares of HK$0.04 each (2010: 2,500,000,000 shares of HK$0.04 each) | **300,000** | 100,000 |
| **Issued and fully paid** | | |
| 2,623,945,000 shares of HK$0.04 each (2010: 1,134,445,000 shares of HK$0.04 each) | **104,958** | 45,378 |

(i) The Company's authorised share capital was increased from HK$100,000,000 to HK$300,000,000 by the creation of additional 5,000,000,000 ordinary shares of HK$0.04 each. The increase in authorised share capital of the Company was duly passed by the shareholders at the special general meeting held on 23 December 2010. The ordinary shares rank pari passu with the existing ordinary shares of the Company in all respects.

(ii) Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting of the Company held on 11 August 2009, the consolidation of ordinary shares in the share capital of the Company (on the basis that every 4 then existing issued and unissued ordinary shares of HK$0.01 each were consolidated into one ordinary shares of HK$0.04 each) was approved and became effective on 12 August 2009 ("Share Consolidation").

## 40. SHARE CAPITAL (Continued)

**(b)** A summary of the movements of the Company's issued share capital is as follows:

| | Note | Number of ordinary shares of HK$0.01 per share | Number of ordinary shares of HK$0.04 per shares | Issued share capital HK$'000 |
|---|---|---|---|---|
| At 1 April 2009 | | 3,031,982,028 | – | 30,320 |
| Exercise of share options | b(i) | 65,797,972 | – | 658 |
| Share Consolidation | a(ii) | (3,097,780,000) | 774,445,000 | – |
| Exercise of share options | b(ii) | – | 71,000,000 | 2,840 |
| Issue of shares | b(iii) | – | 65,000,000 | 2,600 |
| Issue of shares | b(iii) | – | 224,000,000 | 8,960 |
| At 31 March 2010 | | – | 1,134,445,000 | 45,378 |
| At 1 April 2010 | | – | 1,134,445,000 | 45,378 |
| Placing of new shares | b(iv) | – | 1,237,500,000 | 49,500 |
| Exercise of share options | b(v) | – | 36,000,000 | 1,440 |
| Issue of shares for acquisition of subsidiaries | b(vi) | – | 216,000,000 | 8,640 |
| **At 31 March 2011** | | **-** | **2,623,945,000** | **104,958** |

Notes:

(i) During the period after 1 April 2009 but before the Share Consolidation, options were exercised to subscribe for 65,797,972 ordinary shares in the Company for cash of approximately HK$2,915,000 of which HK$658,000 was credited to share capital and the balance of HK$2,257,000 was credited to the share premium account. In addition, approximately HK$1,580,000 was transferred from share option reserve to share premium.

(ii) Subsequent to the Share Consolidation, options were exercised to subscribe for 71,000,000 ordinary shares in the Company for cash of approximately HK$12,099,000 of which HK$2,840,000 was credited to share capital and the balance of HK$9,259,000 was credited to the share premium account. In addition, approximately HK$5,536,000 was transferred from share option reserve to share premium.

## 40. SHARE CAPITAL (Continued)

**(b)** (Continued)

Notes: (Continued)

(iii) During the year ended 31 March 2010, the Company issued and allotted totally 289,000,000 new ordinary shares of HK$0.04 each and recognized an increase in share capital and share premium of HK$11,560,000 and HK$43,640,000 respectively. These shares rank pari passu in all respects with then existing shares in issue.

(a) On 3 August 2009, 65,000,000 ordinary shares of HK$0.04 each at the issue price of HK$0.16 were issued and allotted;

(b) On 16 November 2009, 224,000,000 ordinary shares of HK$0.04 each at the issue price of HK$0.20 were issued and allotted;

(iv) During the year ended 31 March 2011, the Company issued and allotted totally 1,237,500,000 new ordinary shares of HK$0.04 each and recognized an increase in share capital and share premium of HK$49,500,000 and HK$156,355,000 respectively. These shares rank pari passu in all respects.

(a) On 12 April 2010, 159,110,000 ordinary shares of HK$0.04 each at the issue price of HK$0.22 were issued and allotted;

(b) On 29 April 2010, 104,390,000 ordinary shares of HK$0.04 each at the issue price of HK$0.22 were issued and allotted;

(c) On 22 July 2010, 121,000,000 ordinary shares of HK$0.04 each at the issue price of HK$0.20 were issued and allotted;

(d) On 2 December 2010, 853,000,000 ordinary shares of HK$0.04 each at the issue price of HK$0.145 were issued and allotted.

(v) On 10 March 2011, options were exercised under Share Option Scheme adopted on 21 August 2006 and 23 August 2010 to subscribe for 36,000,000 ordinary shares in the Company for cash of approximately HK$5,928,000 of which HK$1,440,000 were credited to share capital and the balance of HK$4,488,000 was credited to share premium account, in addition, approximately HK$2,934,000 were transferred from share option reserve to share premium.

(vi) On 22 March 2011, the Company allotted and issued 216,000,000 ordinary consideration shares with par value of HK$0.04 per share as part of the consideration for the acquisition of Ever Stable Holdings Limited (note 42(a)).

The fair value of the 216,000,000 ordinary consideration shares issued of HK$29,592,000 was based on the published price of the shares of the Company at 30 September 2010 of HK$0.137 per share. The premium of HK$20,952,000 upon issuance of the ordinary consideration shares was credited to the share premium account. The fair value was determined by LCH (Asia-Pacific) Surveyors Limited.

## 40. SHARE CAPITAL (Continued)

### (c) WARRANTS

On 5 November 2010, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to appoint the placing agent, on a fully underwritten basis, for the purpose of arranging subscribers for the subscription of the warrants. The issue price per warrant is HK$0.01 and the subscription price is HK$0.15 (subject to adjustment). The subscription period is from the date of issue of the warrants to the expiry of the second anniversary of the issue of the warrant. 150,000,000 warrants were issued and the gross proceeds from the placing were HK$1,500,000.

During the year ended 31 March 2011 and up to the date of this report, no warrant was exercised to subscribe for ordinary shares of the Company.

## 41. RESERVES

### GROUP

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

## 41. RESERVES (Continued)

### COMPANY

| | Share premium HK$'000 | Accumulated losses HK$'000 | Share option reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Warrant reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2009 | 140,499 | (76,540) | 11,003 | – | – | 74,962 |
| Issue of shares (note 40(b)(iii)) | 43,640 | – | – | – | – | 43,640 |
| Share issue expenses | (896) | – | – | – | – | (896) |
| Exercise of share options (note 40(b)(i) and (ii)) | 18,632 | – | (7,116) | – | – | 11,516 |
| Equity-settled share-based Payments (note 38) | – | – | 9,750 | – | – | 9,750 |
| Issue of convertible redeemable bonds | – | – | – | 1,066 | – | 1,066 |
| Redemption of convertible redeemable bonds | – | 1,066 | – | (1,066) | – | – |
| Issue of convertible bonds (note 36) | – | – | – | 7,439 | – | 7,439 |
| Loss for the year | – | (41,828) | – | – | – | (41,828) |
| At 31 March 2010 and 1 April 2010 | 201,875 | (117,302) | 13,637 | 7,439 | – | 105,649 |
| Exercise of share options (note 40(b)(v)) | 7,422 | – | (2,934) | – | – | 4,488 |
| Placing of new shares (note 40(b)(iv)) | 156,355 | – | – | – | – | 156,355 |
| Issue of shares for acquisition (note 40(b)(vi)) | 20,952 | – | – | – | – | 20,952 |
| Share issue expenses | (3,404) | – | – | – | – | (3,404) |
| Cancellation of convertible bonds (note 42(b)) | – | 1,117 | – | (4,092) | – | (2,975) |
| Issue of warrants (note 40(c)) | – | – | – | – | 1,500 | 1,500 |
| Equity-settled share-based Payments (note 38) | – | – | 7,860 | – | – | 7,860 |
| Loss for the year | – | (27,489) | – | – | – | (27,489) |
| **At 31 March 2011** | **383,200** | **(143,674)** | **18,563** | **3,347** | **1,500** | **262,936** |

## 41. RESERVES (Continued)

### Nature and purpose of reserves

#### (I) SHARE PREMIUM

The application of the share premium is governed by Section 40 of the Companies Act 1981 of Bermuda.

#### (II) SHARE OPTION RESERVE

The share option reserve relates to share options granted to employees under the Company's employee share option plan. Further information about share-based payments to employees is set out in note 38.

#### (III) CONVERTIBLE BONDS EQUITY RESERVE

The convertible bonds equity reserve have been set up and will be dealt with in accordance with the accounting policies set out in note 2(p).

#### (IV) MERGER RESERVE

The merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired pursuant to the Group recognisation in preparation for the listing of the Company's share in August 2000, and the nominal value of the Company's share issued in exchange thereof.

#### (V) EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

#### (VI) WARRANT RESERVE

Warrant reserve represents the net proceed received from the issue of option shares. The warrant reserve will be transferred to share premium account upon the exercise of the warrant.

## 41. RESERVES (Continued)

### (VII) STATUTORY RESERVE

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the subsidiaries established in the PRC, it is required to appropriate 10% of the profit arrived at in accordance with PRC accounting standards for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in-capital.

### (VIII) DISTRIBUTABILITY OF RESERVE

At 31 March 2011, the Company had no distributable reserve (2010: Nil).

## 42. ACQUISITION OF SUBSIDIARIES

### (a) EVER STABLE ACQUISITION

On 30 September 2010, the Group completed the acquisition of the entire equity interest in Ever Stable Holdings Limited (incorporated in the BVI with limited liability, "Ever Stable"), which owns 60% equity interest in Dongguan Jiu He Bioplastics Company Limited "Dongguan Jiu He", a sino-foreign equity joint venture incorporated in the PRC with limited liability, for a purchase consideration of HK$280 million ("Ever Stable Acquisition"), payable as follows:

– HK$215,000,000 in cash; and
– the issue and allotment of 216,000,000 new ordinary shares of HK$0.04 each by the Company at an issue price of HK$0.3009 per share. All the consideration shares were issued on 22 March 2011 (note 40(b)(vi)).

On 28 March 2011, the vendor and the Group entered into a supplemental agreement to amend certain terms and conditions of the Ever Stable Acquisition agreement to reflect the group structure of Ever Stable that Ever Stable also holds the entire equity interest of World Champion Investments Limited ("World Champion") which in turn held 100% equity interest of Zhongshan Jiu He Bioplastic Company Limited ("Zhongshan Jiu He"). By a declaration of trust dated 7 June 2011, World Champion is the nominee of and holds the 40% equity interest of Zhongshan Jiu He for and on behalf of Guangdong Shangjiu Biodegradable Plastics Company Limited ("Shangjiu"), being the PRC partner of Dongguan Jiu He, from 4 March 2011. Upon request by Shangjiu, World Champion and Shangjiu shall enter into an equity transfer agreement, pursuant to which to 40% equity interests in Zhongshan Jiu He held by World Champion, as nominee for and on behalf of Shangjiu, shall be transferred to Shangjiu.

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) EVER STABLE ACQUISITION (Continued)

Ever Stable is an investment holding company whereas Dongguan Jiu He and Zhongshan Jiu He are principally engaged in sales of biodegradable resin and related products. The directors consider that under the recent focus on environmental protection activities internationally and the policy of the PRC government, the use of biodegradable products will be an important and inevitably trend. The great market demand for biodegradable products will bring business opportunities and improved results for the Group.

The vendor has undertaken to guarantee and procure up to 60% of the proposed aggregate paid-up capital of Dongguan Jiu He and Zhongshan Jiu He to be not less than US$17,000,000 (i.e., US$10,200,000) on or before 30 June 2013. As of 31 March 2011, the vendor has injected US$2,526,000 (approximately equivalent to HK$19,659,000) into Dongguan Jiu He. Accordingly, the vendor is committed to injecting an additional amount of US$7,674,000 (approximately equivalent to HK$59,545,000) to the capital of Dongguan Jiu He and Zhongshan Jiu He in aggregate. The 216,000,000 consideration ordinary shares issued on 22 March 2011 (note 40 (vi)) are held in escrow by the legal adviser of the Company until such capital injection into Dongguan Jiu He and Zhongshan Jiu He is complete.

The vendor has provided the Company with profit guarantees such that the total profit after taxation of Dongguan Jiu He and Zhongshan Jiu He will not be less than HK$60 million, HK$80 million and HK$100 million for year ending 31 December 2012, 2013 and 2014 respectively. The accounting standard to be adopted for calculating the profit under the profit guarantee shall be based on generally accepted accounting principles in the PRC. If Dongguan Jiu He and Zhongshan Jiu He failed to meet the aforesaid profit guarantees for any of the three years ending 31 December 2014, the vendor shall pay the Group a compensation equivalent to 60% of the shortfall for that year. If Dongguan Jiu He and Zhongshan Jiu He incurred a loss for any of the three years ending 31 December 2014, the vendor shall pay the Group a compensation equivalent to 60% of the loss for that year plus a compensation of 60% of the shortfall in the profit guaranteed for that year. The Group has the right to choose the way of settlement of the compensation.

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) EVER STABLE ACQUISITION (Continued)

The net assets acquired and the goodwill arising from the Ever Stable Acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 4,157 |
| Intangible assets (note 18 and 42(a)(i)) | 247,675 |
| Cash and cash equivalents | 4,528 |
| Deposit | 575 |
| Other receivables | 8,354 |
| Other payables | (51,161) |
| Deferred tax liabilities (note 34(a)) | (49,308) |
| Fair value of net assets | 164,820 |
| Non-controlling interests (note 42(a)(ii)) | (66,056) |
| Goodwill arising on acquisition (notes 17 and 42 (a)(iii)) | 86,679 |
| Total costs of business combination | 185,443 |
| Satisfied by: | |
| Cash * | 215,000 |
| Issue of shares (note 42(a)(vi)) | 29,592 |
| Total consideration transferred | 244,592 |
| Less: Receivable from vendor of Ever Stable acquisition (note 42(a)(v) | (59,149) |
| Net consideration | 185,443 |

* Including the deposit of HK$10,000,000 (note 21(b)) paid during the year ended 31 March 2010.

| | |
|---|---|
| Net cash outflow arising acquisition | |
| Cash consideration paid | (205,000) |
| Cash and cash equivalents in subsidiaries acquired | 4,528 |
| | (200,472) |

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (a) EVER STABLE ACQUISITION (Continued)

Notes:

(i) Intangible assets represent the right to use two patents of intellectual property in relation to biodegradable materials as licensed by a shareholder of Dongguan Jiu He. The fair value of the intangible assets acquired amounted to approximately HK$247,675,000 was determined by the Board by reference mainly to the assets valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. The valuers have adopted income approach and fair value is estimated based on discounted cash flow model, namely the multi-period excess earnings method, using a long term growth rate of 3.0% and a adjusted discount factor of 24.15% as inputs.

(ii) The non-controlling interests (40%) in Ever Stable Acquisition recognised at the acquisition date was measured by reference to non-controlling interest's proportionate share of the Ever Stable's net identifiable assets.

(iii) Goodwill is attributable to the revenue growth and future market development, the anticipated profitability of the business in manufacturing of biodegradable products and the premium paid for acquisition of the control.

(iv) The fair value of 216,000,000 new ordinary shares issued as part of the consideration paid for Ever Stable acquisition (HK$29,592,000) was based on the spot price of the Company's stock as at 30 September 2010 i.e., the date of completion, which is HK$0.137 per share.

(v) The receivable from vendor of Ever Stable acquisition of HK$59,149,000 represents its fair value as at 30 September 2010. The gross contractual amount of the receivable from vendor of Ever Stable acquisition amounted to US$8,830,200 (equivalent to approximately HK$68,536,000).

Acquisition-related costs amounting to HK$2,178,000 have been excluded from the consideration transferred and have been recognised as an expense in the period, within the 'Administrative expenses ' line item in the consolidated statement of comprehensive income.

### (b) MEGA BRIGHT ACQUISITION

On 1 July 2009, the Group completed the acquisition of the entire equity interest in Mega Bright Investment Development Limited (a company incorporated in Hong Kong with limited liability, "Mega Bright") for a purchase consideration of HK$190 million ("Mega Bright Acquisition"), payable as follows:

- HK$103,500,000 in cash;
- HK$46,500,000 36-month interest-bearing, unsecured promissory notes, details of which are set out in note 35; and
- 2-year zero coupon, unsecured convertible bonds with aggregate face value of HK$40,000,0000, details of which are set out in note 36.

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) MEGA BRIGHT ACQUISITION (Continued)

Upon completion, the Group held 100% equity interest in Mega Bright, which in turn held 51% equity interest in Jining Gangning Paper Co., Ltd. (a sino-foreign joint venture company established in the PRC with limited liability, "Jining Gangning").

Mega Bright is an investment holding company whereas Jining Gangning is principally engaged in the manufacturing and sales of paper products in the People's Republic of China. In order to seek diversification in the Group's business, the directors discern the economic development and growth of the PRC will be one of the impetus main origins to the world's economic recovery, and the investment in the paper manufacturing business in the PRC will bring a higher return to the Group.

The vendor has undertaken to inject additional capital into Jining Gangning up to 51% of the proposed registered capital of Jining Gangning of US$28 million. As of 31 March 2010, Jining Gangning had a paid-up registered capital of US$10 million. Accordingly, the vendor is committed to injecting an additional amount of US$9,180,000 (equivalent to approximately HK$71,604,000) to the capital of Jining Gangning. The convertible bonds and the promissory notes are held in escrow by the legal adviser of the Company until such capital injection into Jining Gangning is complete.

The vendor has provided the Company with profit guarantees such that Jining Gangning shall have a profit after tax of not less than RMB60 million for each of the two years ending 31 December 2011. The accounting standard to be adopted for calculating the profit under the profit guarantee of RMB60 million shall be based on generally accepted accounting principles in the PRC. If Jining Gangning failed to meet the aforesaid profit guarantees for any of the two years ending 31 December 2011, the vendor shall pay the Group a compensation equivalent to 51% the shortfall for that year. If Jining Gangning incurred a loss for any of the two years ending 31 December 2011, the vendor shall pay the Group a compensation equivalent to 51% of the loss for that year plus RMB30.6 million (being the compensation for 51% of the shortfall of the profit guarantee) for that year. The Group has the right to choose the way of settlement of the compensation.

The audited consolidated net profit after taxation of Jining Gangning for the financial year ended 31 December 2010 was RMB4,320,000. As the guaranteed profit is RMB60 million, the vendor is obliged to compensate the Group an amount equals to 51% of the shortfall which was RMB28,390,000 (equivalent to approximately HK$32,880,000).

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) MEGA BRIGHT ACQUISITION (Continued)

Pursuant to a confirmation letter dated 31 March 2011, the Group agreed that an amount of HK$22,000,000, representing approximately 67% of the shortfall, shall be compensated by way of cancellation of the convertible bonds with principal amount of HK$22,000,000 held by the vendor. As at 31 March 2011, the fair value of its liabilities component and equity components amounted to HK$19,025,000 and HK$2,975,000 respectively.

As a result, the carrying amount of liability component (note 36) carried at amortised cost of HK$20,293,000 were recorded as extinguishment of convertible bonds and a gain on extinguishment of convertible bonds (note 5) of HK$1,268,000 was recorded. The gain on extinguishment of convertible bonds is derived from the difference between the carrying amount of liability component of HK$20,293,000 and the fair value of liability component of HK$19,025,000.

Upon the cancellation of the convertible bonds as stated above, the difference between the carrying amount of the corresponding equity component as included in convertible bonds equity reserve of HK$4,092,000 and the fair value of equity component of HK$2,975,000 was released to accumulated losses.

The outstanding amount of HK$12,587,000 of the outstanding compensation will be carried forward and aggregated with and increase the profit guarantee, without interest, for the financial year ending 31 December 2011 and will not be settled by 31 December 2011.

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) MEGA BRIGHT ACQUISITION (Continued)

The net assets acquired and the goodwill arising from the Mega Bright Acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 172,416 |
| Prepaid lease payments | 19,491 |
| Cash and cash equivalents | 2,226 |
| Inventory | 30,302 |
| Trade receivable | 6,027 |
| Other receivables | 25,849 |
| Trade payable | (11,250) |
| Other payables | (195,720) |
| Deferred tax liabilities | (1,434) |
| Fair value of net assets | 47,907 |
| Non-controlling interests | (12,773) |
| Goodwill arising on acquisition (note 17) | 80,877 |
| Total costs of business combination | 116,011 |
| Satisfied by: | |
| Cash | 103,500 |
| Convertible bonds (note 36) | 36,397 |
| Promissory notes (note 35) | 46,500 |
| Total consideration transferred | 186,397 |
| Less: Receivable from vendor of Mega Bright acquisition (note 42(a)(v)) | (71,604) |
| Net consideration | 114,793 |
| Acquisition-related costs | 1,218 |
| | 116,011 |
| Net cash outflow arising from acquisition | |
| Cash consideration paid | (103,500) |
| Acquisition related cost paid | (1,218) |
| Cash and cash equivalents in subsidiaries acquired | 2,226 |
| | (102,492) |

## 42. ACQUISITION OF SUBSIDIARIES (Continued)

### (b) MEGA BRIGHT ACQUISITION (Continued)

If the Mega Bright Acquisition had been completed on 1 April 2009, the Group's revenue would have been increased to HK$191,141,000 and loss for the year ended 31 March 2010 from continuing operations would have been increased to HK$44,161,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group for the year ended 31 March 2010 that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is it intended to be a projection of future results.

## 43. COMMITMENTS

### (a) CAPITAL COMMITMENT

The Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| Acquisition of property, plant and equipment | **2,496** | – |
| Construction in progress | **3,260** | – |
| | **5,756** | – |

The Company did not have any other significant commitment as at the end of the reporting period (2010: HK$Nil).

## 43. COMMITMENTS (Continued)

### (b) OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Group | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 |
| Within one year | **2,172** | 1,959 |
| In the second to fifth years inclusive | **793** | 1,661 |
| After fifth year | **–** | 7 |
| | **2,965** | 3,627 |

The group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. The leases typically run for an initial period of 2 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

## 44. MATERIAL RELATED PARTY TRANSACTIONS

### KEY MANAGEMENT COMPENSATION

| | Group | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 |
| Fee | **1,630** | 1,053 |
| Salaries and other benefits | **337** | 3,713 |
| Equity settled share-base payment | **2,374** | 3,878 |
| | **4,341** | 8,644 |

The Company considers that all members of key management consist of directors of the Company. Details of the compensation of directors of the Company are included in note 11 to the financial statements.

The emoluments of directors are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments:

| | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale financial assets | **180** | 180 |
| Loans and receivables (including cash and cash equivalents) | **86,045** | 81,390 |
| **Financial liabilities** | | |
| Amortised cost | **256,150** | 270,382 |
| Derivative financial instruments | **49,268** | – |

| | Company 2011 HK$'000 | Company 2010 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **513,863** | 242,489 |
| **Financial liabilities** | | |
| Amortised cost | **96,702** | 101,792 |
| Derivative financial instruments | **49,268** | – |

The Group is exposed for a variety of risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk, which result from both its operating and investing activities.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### CAPITAL MANAGEMENT

The primary objective of the Company's capital management policy is to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The directors of the Company review the capital structure on a periodic basis. As a part of this view, the directors of the Company consider the cost of capital and the risks associated with each class of capital, to balance its overall capital structure through new share issues as well as raising new debts or repayment of existing debts.

The Group monitors capital using a debt to equity ratio derived from the consolidated statement of financial position. The following table analyses the Group's capital structure as at 31 March 2011:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Total interest bearing and long-term debts, including bank loans, promissory notes and convertible bonds and notes | **152,323** | 120,628 |
| Less: Cash and cash equivalents (Note 28) | **(24,605)** | (9,081) |
| Net debt | **127,718** | 111,547 |
| Total equity | **501,679** | 192,495 |
| Gearing ratio | **25.46%** | 57.95% |

### FINANCIAL RISK FACTORS

The Group is exposed to credit, liquidity, interest rate and currency risks arising in the normal course of its business.

Theses risks are regularly monitored by the management and limited by the Group's financial management policies and practices described below.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (a) Credit risk

(i) As at 31 March 2011, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance;

(ii) In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The credit quality of the counterparties regarding time deposits has been assessed with reference to external credit ratings (if available) or historical information about the counterparty default rates. As regards trade and other receivable, the management continuously evaluates the credit worthiness and payment record of each borrower or customer and these credit risks are closely monitored on an ongoing basis. At the end of each reporting period, the Group reviews the recoverable amount of each individual debt to ensure that adequate impairment losses are made for irrecoverable amounts. The Group does not require collateral in respect of its financial assets. Debts are usually due within 1 to 3 months from the date of billing.

(iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group has certain concentration risk. approximately 32% (2010: 23%) and 49% (2010: 59%) of the Group's trade receivables was attributable to one single customer and five customers respectively.

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(v) The companies concentration of credit risk is on advances to subsidiaries. The management of the company has closely monitored and reviewed the recoverability of the amounts and the directors of the company consider such risk is considered manageable.

(vi) Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24.

#### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (b) Liquidity risk

The following liquidity table set out the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group and the Company required to pay.

**The Group**

**At 31 March 2011**

| | Less than 1 year or on demand HK$'000 | Between 1 to 2 years HK$'000 | Between 2 to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Trade payables | 19,004 | – | – | 19,004 | 19,004 |
| Bank acceptance notes payable | 65,505 | – | – | 65,505 | 65,505 |
| Interest-bearing borrowings | 48,081 | 7,361 | – | 55,442 | 50,317 |
| Other payables | 68,586 | – | – | 68,586 | 68,586 |
| Convertible bonds | 18,000 | – | – | 18,000 | 16,603 |
| Convertible note | 94,503 | – | – | 94,503 | 85,403 |
| | 313,679 | 7,361 | – | 321,040 | 305,418 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (b) Liquidity risk (Continued)

**The Group**

At 31 March 2010

| | Less than 1 year or on demand HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Trade payables | 23,762 | – | – | 23,762 | 23,762 |
| Other payables | 20,980 | – | – | 20,980 | 20,980 |
| Payable for machinery and equipment | 66,442 | – | – | 66,442 | 66,442 |
| Subscription received | 15,500 | – | – | 15,500 | 15,500 |
| Bank acceptance notes payable | 23,070 | – | – | 23,070 | 23,070 |
| Interest-bearing borrowings | 37,908 | 20,206 | – | 58,114 | 49,139 |
| Convertible bonds | – | 40,000 | – | 40,000 | 31,489 |
| Promissory notes | – | – | 47,200 | 47,200 | 40,000 |
| | 187,662 | 60,206 | 47,200 | 295,068 | 270,382 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (b) Liquidity risk (Continued)

**The Company**

**At 31 March 2011**

| | Less than 1 year or on demand HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Other payables | **2,329** | **-** | **-** | **2,329** | **2,329** |
| Amounts due to subsidiaries | **-** | **41,635** | **-** | **41,635** | **41,635** |
| Convertible bonds | **18,000** | **-** | **-** | **18,000** | **16,603** |
| Convertible note | **94,503** | **-** | **-** | **94,503** | **85,403** |
| | **114,832** | **41,635** | **-** | **156,467** | **145,970** |

At 31 March 2010

| | Less than 1 year or on demand HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Other payables | 2,480 | – | – | 2,480 | 2,480 |
| Amounts due to subsidiaries | – | 12,323 | – | 12,323 | 12,323 |
| Subscription received | 15,500 | – | – | 15,500 | 15,500 |
| Convertible bonds | – | 40,000 | – | 40,000 | 31,489 |
| Promissory note | – | – | 47,200 | 47,200 | 40,000 |
| | 17,980 | 52,323 | 47,200 | 117,503 | 101,792 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

### (c) Interest rate risk

(i) *Exposure to cash flow and fair value interest rate risk*

The Group's interest rate risk arises primarily from short-term bank borrowings. As at 31 March 2011, except for the bank borrowing of HK$10,124,000 (2010: HK$13,265,000) held at average effective interest rate of 5.37% per annum (2010: 5.31% per annum). The Group and the Company had no significant variable interest-bearing assets/liabilities.

As at 31 March 2011, the Group and the Company was primarily exposed to cash flow interest rate risks arising from bank borrowings and promissory notes, which are on floating interest rates calculated with reference to market rates. In addition, the zero coupon convertible bonds expose the Group and the Company to fair value interest rate risks.

(ii) *Sensitivity analysis*

As at 31 March 2011, it is estimated that an increase/decrease of 50 basis points in interest rates, with all other variables held constant, would cause the Group's net loss and accumulated losses to widen/narrow by approximately HK$51,000 (2010: HK$266,000), arising as a result of higher/lower interest expenses. There would be no impact on other components of the Group's equity.

As at 31 March 2011, it is estimated that an increase/decrease of 50 basis points in interest rates, with all other variables held constant, would cause the Company's net loss and accumulated losses to widen/narrow by approximately HK$Nil (2010: HK$200,000), arising as a result of higher/lower interest expenses. There would be no impact on other components of the Company's equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period. For the purposes of the analysis, it is assumed that the amounts of variable-rate borrowings outstanding at the end of the reporting period were outstanding throughout the whole year. The 50 basis point increase or decrease represents management assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (d) Foreign currency risk

The Group's business are principally conducted in Hong Kong and the PRC. The majority of assets are denominated in Hong Kong Dollars and Renminbi, which is the functional currencies of the subsidiaries in the PRC to which these transactions relate.

The Group does not have a foreign currency hedging policy. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

i) *Exposure to currency risk*

The following tables detail the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | **The Group Exposure to foreign currencies (expressed in HK$'000)** | |
|---|---|---|
| | **2011 RMB** | 2010 RMB |
| Convertible note | **83,300** | – |
| Gross exposure arising from recognised assets and liabilities | **83,300** | – |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

### (d) Foreign currency risk (Continued)

*i) Exposure to currency risk (Continued)*

| | The Company Exposure to foreign currencies (expressed in HK$'000) | |
|---|---|---|
| | **2011 RMB** | 2010 RMB |
| Convertible note | **83,300** | – |
| Gross exposure arising from recognised assets and liabilities | **83,300** | – |

*ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rate** | **Effect on loss after tax and accumulated losses HK$'000** | Increase/ (decrease) in foreign exchange rate | Effect on loss after tax and accumulated losses HK$'000 |
| Renminbi | **4%** | **3,335** | 4% | – |
| | **(4%)** | **(3,335)** | (4%) | – |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (d) Foreign currency risk (Continued)

*ii) Sensitivity analysis (Continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group's exposure to currency risk for both derivative and non derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong Dollars and the United States Dollars would be materially unaffected by any changes in movement in value of the United States Dollars against other currencies. The analysis is performed on the same basis for 2010.

#### (e) Fair value of financial instruments

*(i) Financial instruments carried at fair value*

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

### (e) Fair value of financial instruments (Continued)

*(i) Financial instruments carried at fair value (Continued)*

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

| | As at 31 March 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | The Group | | | | The Company | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| Derivative financial instrument | – | (49,268) | – | (49,268) | – | (49,268) | – | (49,268) |
| Total | – | (49,268) | – | (49,268) | – | (49,268) | – | (49,268) |

There was no significant financial instrument stated at fair value as at 31 March 2010.

There were no transfers between instruments in all levels during the year.

The fair value of financial assets and financial liabilities (excluding derivatives embedded in convertible bonds) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable market transactions as inputs.

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

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

**(e) Fair value of financial instruments (Continued)**

*(ii) Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 March 2011 and 2010.

**(f) Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

*(i) Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

*(ii) Derivatives*

The fair value of put option and conversion options at 31 March 2011 and assumptions are as follows:

| | **Put option** | **Conversion option** |
|---|---|---|
| Fair value (RMB) | RMB7,700,000 | RMB33,702,000 |
| Fair value (equivalent to HK$) | HK$9,163,000 | HK$40,105,000 |
| Share price: | HK$0.162 | HK$0.162 |
| Conversion price: | HK$0.194 | HK$0.194 |
| Risk-free rate: | 1.76% | 1.76% |
| Expected dividend yield: | 0% | 0% |
| Annualised volatility: | 71% | 71% |

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### FINANCIAL RISK FACTORS (Continued)

#### (f) Estimation of fair values (Continued)

*(iii) Financial guarantees*

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantee not been available, where reliable estimates of such information can be made.

## 46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management has made the following accounting judgements:

#### (a) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

**(i)** The recoverable amount of an asset is the higher of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

## 46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (a) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS (Continued)

#### (ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with HKAS 36 "Impairment of Assets" ("HKAS 36"). The recoverable amounts of cash-generating units have been determined based on fair value less cost to sell calculations. These calculations require the use of estimates. Had the pre-tax discount rate, revenue growth rate and terminal growth rate applied to the discounted cash flow been different from the management's estimate, the goodwill might result in impairment. Details of the assumptions are described in note 17.

#### (iii) Impairment of intangible assets

Intangible assets on the right of using two patents of intellectual property are reviewed for impairment whenever events or changes in circumstances in accordance with HKAS 36. The recoverable amounts have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates. In determining the fair value less costs to sell, expected cash flows generated from the use of the rights are discounted to their present value, which requires significant judgement relating to the level of volume of air time being sold, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and operating costs. Had the actual results been different from the management's estimate, the exclusive advertising agency rights might result in impairment.

#### (iv) Impairment of trade and loans receivables

The policy for impairment assessment for trade and loans receivables of the Group is based on the evaluation of collectability and an aging analysis of the receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer or borrower. As at 31 March 2011, allowance for impairment of doubtful loans receivable was HK$656,000 (2010: HK$656,000), whilst allowance for impairment of doubtful trade receivables was HK$Nil (2010: HK$3,041,000). If the financial conditions of borrowers or customers of the Group were to deteriorate, resulting in further impairment of their ability to make payments, additional provision may be required.

## 46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) SOURCES OF ESTIMATION UNCERTAINTY

#### (i) Derivative financial instruments

The directors of the Company use their judgement in selecting an appropriate valuation technique to determine fair value of embedded conversion option and put option of the convertible notes. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial liabilities are determined at the end of the reporting period with movements in fair value recognised in profit or loss. In estimating the fair value of these derivative financial liabilities, the Group uses independent valuation which is based on various inputs and estimates based on quoted market rates and adjusted for specific features of the instrument (see note 37). If the inputs and estimates applied in the model are different, the carrying amount of these derivative financial liabilities will change. The carrying value of the embedded conversion option and put option of convertible notes at 31 March 2011 were HK$49,268,000 (2010: Nil).

### (c) FAIR VALUE OF CONVERTIBLE BONDS/NOTE

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair value of convertible bonds/note are subject to the limitation of the Binominal options pricing model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Binominal model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions used are disclosed in Notes 36 and 37.

### (d) RECOGNITION OF EQUITY-SETTLED SHARE-BASED PAYMENTS

The Group's directors and employees have been awarded share options under the Company's share option scheme for their services rendered to the Group. The Company has applied the Black-Scholes options-pricing model to determine the grant-date fair values of the options granted. Significant judgement and estimates are required to determine the assumptions input to the Black-Scholes options-pricing model, including the risk-free interest rate, the expected volatility and the expected life of the options. Changes in these assumptions could have a material effect on the fair values of the options granted, which in turn could result in a material impact on the share option expense recognised for the year. Further details of the Company's share options and share option expense are set out in Note 38.

## 47. COMPARATIVE FIGURES

(a) Certain comparative figures have been restated in compliance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" from the discontinued operations of the Group's business during the year, detail of which are referred to note 9.

(b) Amounts due to subsidiaries with amount of HK$12,323,000 (2009: HK$4,146,000) which were included in interests in subsidiaries of the statement of financial position as at 31 March 2010 has been reclassified from non-current assets to non-current liabilities to conform with the current year's presentation. The directors consider the revised presentation reflects more appropriately the nature of these liabilities.

## 48. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 March 2011.

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

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRSs (Amendments), *"Improvements to HKFRSs 2010"* | 1 July 2010 or 1 January 2011 as appropriate |
| HKFRS 1 (Amendments), *"Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters"* | 1 July 2010 |
| HKFRS 1 (Amendments), *"Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"* | 1 July 2011 |
| HKFRS 7 (Amendments), *"Financial Instruments: Disclosures – Transfers of Financial Assets"* | 1 July 2011 |
| HKFRS 9, *"Financial Instruments"* | 1 January 2013 |
| HKAS 12 (Amendments), *"Deferred tax: Recovery of Underlying Assets"* | 1 January 2012 |
| HKAS 24 (Revised), *"Related Party Disclosures"* | 1 January 2011 |
| HK(IFRIC) – Int 14 (Amendments), *"Prepayments of a Minimum Funding Requirement"* | 1 January 2011 |
| HK(IFRIC) – Int 19, *"Extinguishing Financial Liabilities with Equity Instruments"* | 1 July 2010 |

## 48. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2011 (Continued)

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

(i) HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

(ii) The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss. HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 March 2014 and that the application of this new Standard may mainly affect the classification and measurement of the Groups' available for sale investments but may not affect the classification and measurement of the Group's other financial assets and liabilities based on an analysis of its consolidated financial statements on 31 March 2011.

HK(IFRIC) -Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. Up to the present date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HKFRIC 19 will affect the required accounting. In particular, under HKFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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