# iMerchants Limited

## Annual Report 2011

Stock Code : 8009

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This report, for which the directors of iMerchants Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to iMerchants Limited. The directors of iMerchants Limited, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Yau Yan Ming Raymond *(Chairman)*
Mr. Chang Wai Keung
Mr. Yang Bin
Mr. Li Wen Jun
Mr. Wong Ka Chun Carson

### Independent Non-executive Directors

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Lam Tze Chung

## COMPANY SECRETARY

Mr. Yau Yan Ming Raymond

## COMPLIANCE OFFICER

Mr. Yau Yan Ming Raymond

## AUTHORISED REPRESENTATIVES

Mr. Yau Yan Ming Raymond
Mr. Yang Bin

## AUDIT COMMITTEE

Mr. Chang Kin Man *(Chairman)*
Mr. Wu Tak Lung
Mr. Lam Tze Chung

## REMUNERATION COMMITTEE

Mr. Yau Yan Ming Raymond *(Chairman)*
Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Lam Tze Chung

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

Room 2112, 21/F
Wing On Centre
No. 111 Connaught Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## INDEPENDENT AUDITORS

SHINEWING (HK) CPA Limited

## PRINCIPAL BANKERS

Chiyu Banking Corporation Ltd.
Wing Hang Bank, Limited

## STOCK CODE

08009

## WEBSITE

http://www.imerchantsltd.com

On behalf of the board (the “Board”) of directors (the “Directors”) of iMerchants Limited (the “Company”) and its subsidiaries (collectively, the “Group”), I am pleased to present our annual report for the year ended 31 March 2011.

The world economy is still in the shadow of the financial crisis happened two years ago. The US economy is in a slow recovery progress even though the government had imposed stimulating policies. European countries are developing sovereign debt crisis as the some of the euro members are having problems to finance it’s own debt created by the bank bailouts. Asia market in contrast is experiencing a positive growth. The China economy, once again, maintains one of the strongest among the region.

In recent years, China economy has been facing several structure problems. First, there is an increase in real wage and the aging of the population. Over the pass decade, Chinese company has been taking the advantage over the low labor cost and relative low price on raw material. After the rapid growth on the national income, the production cost has been rising gradually in recent years. The competitive advantage have been diminishing over the years. New emerging markets with rich resources such as Indonesia and Brazil are causing companies in China to confront with more competitions than the before. Secondly, over heating economy created over investment and asset bubble to appear. Chinese government has to cool down the economy but introducing fiscal policy to subdue inflation and tighter monetary control. The government is also putting more effort to control price along with imposing higher environmental and product safety causes increasing challenging business environment. As a result corporate are more hesitant to invest under high credit cost. The challenges we faced in the Chinese economy have some what affecting the profitability of the portfolio held by Shenzhen Careall Capital Investment Co., Ltd. (“Careall Capital”), causing the forecast for the coming years to be less optimist than before. As seeing the challenges we face ahead, we prudently adjust the projection for the coming years based on the current situation and make provision according. Inevitably, this causes a negative impact on the result for the year.

## PROSPECTS

Driven by the internal demand while spending power continuously increase by the majority population, the China economy yet to be feared by a structural inflation in it's long run. Fortunately, with the strong hand of the Chinese government, commodities price such as raw material and property has been stabilized after the dramatic increase in price during the year. Tightening monetary policy stabilizing China's money supply have yet effectively ease off on the asset bubbles and put inflation into control. The Chinese government is determine to encourage the economy to transform from rapid growth over on GDP to a more robust and sustainable development. The result has been promising.

Collaborating with Shenzhen Careall Capital Investment Co, Ltd (“Careall Capital”), our investment focus in the future will take on a direction which gears towards a more diversify yet cautious approach. In view of the government tendency to stimulate domestic consumption and increase in spending power and higher living standard of the population, the demand for energy and housing will continue to increase. We highly believe that investing in these areas will bring positive return for the company in long run. Our top priority is to explore on projects or assets which are related to the sectors such as real assets and energy. We also strongly believe these sectors will also provide good hedging effect during the period of inflation. High turnovers and booming IPOs on Chinese and Hong Kong stock markets is believe to maintain in the coming years. The Group and Careall Capital will continue take advantage by linking the market funds to quality assets and projects to increase the company's value and profitability as well as earnings.

To cope with the up coming transition and the challenge in the future investment strategy, the company is planning to strength the management team and recruit more talents with extensive knowledge and investing experience in the relating business sector and industry knowhow. We strongly believe that will help in building a better prospect for the Group in the coming years.

## APPRECIATION

On behalf of the Board, I would like to express our appreciation to all our dedicated staff for their contribution to the group. I would also like to send our express to our shareholders for the tremendous support.

**Yau Yan Ming Raymond**
*Chairman*
Hong Kong, 5 August 2011

## BUSINESS REVIEW

The Chinese government is determine to control inflation with tightening policy in place. The market and business and market environment becoming increasingly challenging as wage increase, appreciating currency and higher environment and product safety standards. Raw material prices are also on increasing route. The profitability of the companies in our managing investment portfolio are diminishing as a result. In the year ended 31 March 2011, we took on a impairment loss on intangible assets of approximately HK$271,168,000. The other major impairment on the goodwill which recognized over the cash generating unit ("CGU") arise from the acquisition of the manufacture and trading of ceramic sewage material subsidiary. The operation of the CGU was suspended during the year ended 31 March 2011. The Group is in the process of discussing with some potential sub-contractors but no specific contract was made as at the reporting date. The management had already taken legal action against the default party according to the contract terms and condition to seek for compensation. Currently the counter partier have given up his share of ownership of the factory as a compensation. Unfortunately, HK$16,952,000 was recognized as at 31 March 2011. Two loan receivables totalling approximately HK$18,800,000 was also being impaired during the year due to the prolonged weak financial position of the borrowers. These major impairments have made a contributions to the loss for the year.

The impaired amount had made a quite significant impact to the result for the year. The Board took a prudent approach to review the Group's assets and make impairment accordingly. Hence, the Board in the coming year will promptly make the best effort to enhancing the Group's internal control policies and procedures to monitor the assets of the Group, not limited to assets such as loan receivables, investment deposit and cash generating unit (profit guarantee) respectively as follows:

1) Amplify on the review and evaluation on the creditworthiness and the credit history of the borrower and the ensure sufficient amount of collateral is pledged along with a complete loan recoverability risk assessment.

2) Form an investment committee with specialist with high proficiency to oversee and compose a profound and comprehensive due diligence process and improve the safe guard on investment deposit.

3) Increase the criteria and evaluation standards and benchmarks when accessing the competence and the qualification of current and potential business partners.

The Board has also decided to appoint a professional independent internal auditor to conduct a review of the effectiveness of internal control system of the Group.

Recently, the Board has made a collection on the loan receivable of HK$700,000 in June 2011, and will maintain communication with the borrowers to arrange for full repayment as well as continue the negotiation with the target party on recovering of the investment deposit. Where as, for the delayed payment of management fee for the first year due to the timing of redemption of investment income by Careall Capital had made an impact to the impairment on the value of the intangible asset. The management fee receivable by the Company under the management agreement with Careall Capital (the "Management Agreement") from 19 August 2009 to 18 August 2010 (the "First Relevant Period ") which are irrevocable and unconditionally guaranteed by Rightshine Holdings Limited ("Rightshine"), the vendor of the subsidiary with the Management Agreement, shall be no less than RMB100,000,000 ("Guaranteed Management Fee"). A certificate representing the convertible bond of HK100,000,000 was deposit with an escrow agent. In the event that the management fees received and/or receivable by the Company under the Management Agreement during the First Relevant Period are not met and the shortfall payment has not been paid in cash by Rightshine, the Company is entitled to deduct from the escrowed certificates the shortfall which shall be equal to the difference between the Guaranteed Management Fee and the management fees actually received by the Company during the First Relevant Period. The actual amount of the Management Fee was approximately HK$114,626,000. The first payment of RMB28,000,000 was received on 28 July 2011 and expecting the second payment of RMB 28,000,000 to be received by early September 2011. The management of the Group including the Board and the Independent non-executive Directors satisfied with the current collection progress of the management fee made by Careall Capital.

## MAJOR EVENTS DURING THE YEAR UNDER REVIEW

References were made to the announcement of the Company dated 5 August 2010. The Board announced that on 3 August 2010, a direct wholly-owned subsidiary of the Company (the "Purchaser") entered into the MOU with a company incorporated in the British Virgin Islands and beneficially owned by an Independent Third Party (the "Vendor"), the Vendor's Guarantor and the Vendor's PRC Co. for the possible acquisition of the entire issued share capital of the Target Company at a total consideration of not more than HK$980 million, subject to the payment of the Adjusted Consideration. The Consideration and the Adjusted Consideration shall be satisfied in cash and by the Company allotting and issuing the Convertible Preference Shares and/or Convertible Bonds. Subject to the due diligence review to be conducted by the Company, based on the representation from the Vendor, the Project Company currently has the right to construct and operate a project relating to exploration and exploitation of natural gas in the People's Republic of China (the "PRC") and will acquire from a large oil and gas producer and supplier in the PRC the right to construct and operate three other projects relating to exploration and exploitation of natural gas in the PRC. The proposed Acquisition is still in negotiation and is subject to the entering into of the Sale and Purchase Agreement. The entering into of the Sale and Purchase Agreement, if it materialises, will constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement will be made by the Company when the Sale and Purchase Agreement is signed. The proposed Acquisition may or may not proceed and that no legally binding document has been executed. For details and the meanings of the capitalised terms used in this paragraph please refer to the announcement of the Company dated 5 August 2010.

On 26 May 2008, Shine Gain Holdings Limited, a direct wholly-owned subsidiary of the Company (the "Purchaser"), entered into an agreement (the "Agreement") to purchase the entire issued share capital of Plenty One Limited (the "Acquisition"), which in turn holds a 80% interest in the registered and paid-up capital of Ping Xiang City San He Lian Chuang Water Technology Company Limited (萍鄉市三和聯創水務科技有限公司) (the "PRC Co."). Details of the Agreement and the Acquisition are disclosed in the circular of the Company dated 19 June 2008. Pursuant to the Agreement, Da Luz, Sergio Augusto Josue Junior (the "Vendor") irrevocably and unconditionally warrants, guarantees and undertakes to and with the Purchaser that the consolidated net profit after tax of the PRC Co. (the "Net Profit") during the period from 1 June 2008 to 30 May 2009 ("First Relevant Period") and the period from 1 June 2009 to 30 May 2010 ("Second Relevant Period") and the period from 1 June 2010 to 30 May 2011 ("Third relevant Period") as to be shown in the audited accounts of the PRC Co. for such period to be prepared by a certified public accountants acceptable to the Purchaser shall not be less than RMB6,000,000, RMB10,000,000 and RMB13,000,000 respectively (the "Guaranteed Profit"). In the event that the Net Profit during the First and Second Relevant Period, as the case may be, is less than the Guaranteed Profit, the Purchaser shall be entitled to a cash sum which is equal to the amount of the difference between the Guaranteed Profit and the Net Profit (the "Shortfall Payment").

On 28 July 2010, Plenty One Limited and the Vendor had come to an settlement which the Vendor agreed to procure the transfer of the 20% interested in the registered and paid-up capital of PRC Co. from the minority shareholder to Plenty One Limited as a compensation to the inability to fulfill the commitments on the Guaranteed Profit (the "Share Transfer"). Upon obtaining opinion from legal advisor and reviewing of the current financial status of the Vendor, the prospect of recovering the full amount of the Guaranteed Profit as damages is low and would be the best settlement could be achieved. The Share Transfer is still at its final processing stages.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group had cash and cash equivalents of approximately HK$941,000 as at 31 March 2011 (2010: HK$47,636,000) and maintain a sturdy financial situation with current assets plus financial investments and deposits totaling approximately HK$137,407,000 for the year ended 31 March 2011 (2010: HK$59,970,000). The Group had approximately HK$4,169,000 of other borrowing at subsidiary level (2010: HK$3,990,000) which equivalent to RMB3,500,000 for both years.

## FOREIGN EXCHANGE RISK

The Group's exposure to foreign exchange risk is minimal as most of the Group's subsidiaries operate in the PRC and most of the transactions, assets and liabilities are denominated in Renminbi and Hong Kong Dollars. Accordingly, the Group does not have derivative financial instruments to hedge its foreign currency risks.

## INVESTMENT

As at 31 March 2011, the Group did not have any financial investment (2010: HK$6,312,000). The management will take a cautious and prudent approach in implementing our strategies in the future.

## REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

For the year ended 31 March 2011, the Group's turnover was approximately HK$119,728,000 which was comprised of revenue from management service fee income and manufacture and trading of ceramic sewage material amounted to approximately HK$114,626,000 as compared to approximately HK$8,595,000 for the year ended 31 March 2010.

The gross profit for the group was approximately HK$49,330,000 (2010: loss HK$21,042,000). The Group generated a net loss attributable to owners of the Company of approximately HK$316,804,000 for the year ended 31 March 2011, compared to a net loss attributable to owners of the Company of approximately HK$92,503,000 for the year ended 31 March 2010. The loss was majorly raised from impairment loss on goodwill from our PRC Co. approximately HK$16,952,000, impairment loss on intangible assets with an amount of approximately HK$271,168,000 and impairment on loan receivables of HK$18,800,000.

Cost of sale incurred by the Group for the year ended 31 March 2011 amounted to approximately HK$65,296,000 (2010: HK$29,637,000). This amount included the amortization of an intangible asset. The amortization of intangible asset alone was approximately HK$62,875,000 (2010: HK$25,710,000). Selling expenses incurred by the Group for the year ended 31 March 2011 amounted to approximately HK$3,310,000 (2010: HK$5,292,000), representing the manufacturing and trading of ceramic sewage material subsidiary in the PRC. Administrative expenses for the year ended 31 March 2011 was approximately HK$11,964,000 (2010: HK$12,177,000). This included rental expenses of approximately HK$1,253,000 (2010: HK$1,168,000) and staff cost of approximately HK$3,674,000 (2010: HK$4,178,000).

## EMPLOYEE INFORMATION

As of 31 March 2011, the Group employed approximately 15 staffs (2010: 80) which mostly located in our factory in the PRC. The Group has not granted any share option to the employees under its existing share option schemes during the year ended 31 March 2011 (2010: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## DIVIDEND

The Directors do not recommend the payment of a final dividend for year ended 31 March 2011 (2010: Nil).

## PLEDGE OF ASSET

At the end of the reporting period, the prepaid lease payment in relation to the land use right under the PRC manufacturing subsidiary with carrying value at approximately HK$2,690,000 (2010: HK$2,636,000) was pledged to the local credit union to secure a borrowing provided to the manufacturing subsidiary

The Group has no contingent liabilities as at 31 March 2011 (2010: nil).

## CAPITAL COMMITMENTS

As at 31 March 2011, the Group has no capital commitment (2010: nil).

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Yau Yan Ming Raymond**, aged 43, has over 15 years of work experience in auditing, accounting, taxation, company secretarial, corporate finance and financial management, in both private and listed companies. Mr. Yau is an associate member of both the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. Mr. Yau is also a fellow member of the Taxation Institute of Hong Kong. He is currently an independent non-executive director of Willie International Holdings Limited (stock code: 273) and Birmingham International Holdings Limited (stock code: 2309), both of which are listed on the main board of the Stock Exchange. Mr. Yau holds a master degree in Science majoring in Japanese business studies and bachelor degree in Business Administration majoring in accounting in the United States of America. He also acts as the company secretary of the Company.

**Mr. Chan Wai Keung**, aged 57, has over 30 years of experience in the operation and development of business, china trade, international trade and venture capital etc. Mr. Chan was a member of Hong Kong New Territory Lions Club International from 1986 to 2001, and was also the committee member of the People's Political Consultation Committee of Longguang, Shenzhen, the PRC. Mr. Chan is currently a non-executive director of Birmingham International Holdings Limited (stock code: 2309), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chan was the chairman, chief executive officer and executive director of China Energy Development Holdings Limited (stock code: 228) and resigned on 1 October 2009. Mr. Chan was also the chief executive officer and executive director of UURG Corporation Limited (stock code: 8192) and resigned on 6 May 2010. Mr. Chan is currently a director of China Trend Investment Limited.

**Mr. Yang Bin**, aged 38, Mr. Yang was graduated from the college of Jiu-jiang, Jiangxi Province, the PRC. He has also completed his studies in Economy Administration in Distance Learning College of The Party School of the Central Committee of the Communist Party of China. Mr. Yang joined the Company in 2007 as a Deputy General Manager in charge of the Operation Division of the Company. He has over 10 years' working experience in water industry. Before joining the Company, Mr. Yang was a General Manager Assistant of Jiangxi Shangrao City Water Supply Company* (江西省上饒市自來水公司) where he was mainly responsible for marketing and promoting water supply business to the urban residents of Shangrao City, the People's Republic of China as well as designing and constructing water supply piping network. Mr. Yang is currently an executive director of China Water Industry Group Limited (Stock code: 1129), the shares of which are listed on the Main Board of the Stock Exchange.

**Mr. Li Wen Jun**, aged 52, Mr. Li was graduated from Department of Chemical Machinery of South China University of Technology. He has passed the national training and examination organised by the State Council of the PRC in respect of the overseas delegated engineer and he has also passed the national training and examination for managers and factory director. Mr. Li has more than 25 years of extensive experience in chemical engineering and management of the chemical industry in the PRC. Mr. Li has also conducted various research and development projects in relation to organic chemistry majoring in research on treatment of sewerage by BAF (Biological Aerated Filter). Mr. Li is currently an Executive Director of China Water Industry Group Limited (stock code: 1129), the shares of which are listed on the Main Board of the Stock Exchange.

**Mr. Wong Ka Chun Carson**, aged 33, is a member of the American Institute of Certified Public Accountants. He graduated from Simon Fraser University with a Bachelor's degree in Economics and a Diploma in Financial Management from British Columbia Institution of Technology. He had substantial experience in auditing and financial analytical experience in a multi-national corporation. He is the financial controller of the Company.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chang Kin Man**, aged 47, is a certified public accountant in Hong Kong and a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chang holds a Bachelor's Degree in Economics and a Master's Degree in Applied Finance. Mr. Chang has extensive experience in corporate finance and in accounting field. He worked for an international accounting firm and a number of public listed companies for more than 15 years. On 31 May 2011, he resigned from Birmingham International Holdings as an independent non-executive director. Mr. Chang is currently an independent non-executive director of China Water Industry Group Limited (stock code: 1129) which is listed on the Main Board of the Stock Exchange.

**Mr. Wu Tak Lung**, aged 46, is a fellow member of The association of Charter Certified Accountants, The Hong Kong institute of Chartered Secretaries and The Taxation Institute of Hong Kong. Mr. Wu is also a full Member of the Hong Kong Securities Institute and an associate member of The Hong Kong institute of Certified Accountants. Mr. Wu is currently an independent non-executive director of AUPU Group Holding Company Limited (stock code: 477), Neo-Neon Holdings Limited (stock code: 1868) and China Water Industry Group Limited (stock code: 1129), which are listed on the Main Board of the Stock Exchange, and AKM Industrial Company Limited (stock code: 8298) which is listed on GEM.

**Mr. Lam Tze Chung**, aged 39, has over 10 years of working experience in accounting field. He holds a Bachelor of Arts in Accountancy from The Hong Kong Polytechnic University. Mr. Lam is an associate member of Hong Kong Institute of Certified Public Accountants and an associate member of Association of Chartered Certified Accountants.

The Directors present their annual report and the audited financial statements for the year ended 31 March 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal business of the Group is provision of management service regarding financial investment as well as manufacture and trading of ceramic sewage material.

## SUBSIDIARIES AND ASSOCIATE

Details of the Company's subsidiaries and an associate as at 31 March 2011 are set out in notes 20 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2011 are set out in the consolidated income statement on page 27 of this report.

The Directors do not recommend the payment of any dividend in respect of the year (2010: Nil).

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2011, the aggregate amount of turnover attribute to the Group's five largest customers was 100% (2010: 7.8%) of the total value of the Group's turnover. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in major customers or suppliers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

## SHARE CAPITAL, CONVERTIBLE PREFERENCE SHARES AND CONVERTIBLE BONDS

Details of movements in the share capital, convertible preference shares and convertible bonds of the Company during the year are set out in notes 29, 30 and 31 to the financial statements.

## RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity in the financial statements.

As at 31 March 2011, the reserves of the Company available for distribution to shareholders were approximately HK$(159,527,000), comprising special capital reserve of HK$50,587,000, contributed surplus of HK$31,104,000 and accumulated losses of HK$347,644,000.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year ended 31 March 2011.

## FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 86 of this report.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive Directors:

Mr. Yau Yan Ming Raymond ("Mr. Yau")
Mr. Chan Wai Keung ("Mr. Chan") (Appointed on 21 October 2010)
Mr. Yang Bin ("Mr. Yang")
Mr. Li Wen Jun ("Mr. Li")
Mr. Wong Ka Chun Carson ("Mr. Wong")

### Independent non-executive Directors:

Mr. Wu Tak Lung ("Mr. Wu")
Mr. Chang Kin Man ("Mr. Chang")
Mr. Lam Tze Chung ("Mr. Lam")

In accordance with article 100 of the Company's Articles of Association (the "Articles"), Mr. Chan will retire at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, will offer themselves for re-election.

In accordance with article 120 of the Articles, Mr. Yau, Mr. Yang and Mr. Wong will retire at the forthcoming AGM and, being eligible, will offer themselves for re-election.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory obligations.

## DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 9 to 10 of the this Report.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

At 31 March 2011, the interests and short positions of the Directors and chief executive of the Company 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 ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

### Long positions in ordinary shares of HK$0.04 each of the Company (the "Shares")

No long positions of Directors in the Shares was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Long positions in underlying shares – share options granted by the Company

No long positions of Directors in the underlying shares of the equity derivatives of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Long positions in debentures

No long positions of Directors in the debentures of the Company or any of its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Long positions in the shares of associated corporation

| Name of Director | Name of associated corporation | Number of shares held in the associated corporation | Approximate percentage of shareholding |
|---|---|---|---|
| Yang Bin | China Water Industry Group Limited ("China Water") | 450,479,000 *(Note 1)* | 13.04% |

*Notes:*

1. These shares are held by Boost Skill Investments Limited (as to 265,479,000 shares of China Water) and its wholly-owned subsidiaries, Favor Jumbo Investments Limited (as to 130,000,000 shares of China Water) and Sure Ability Limited (as to 55,000,000 shares of China Water), Mr. Yang Bin is interested in 60% of the equity interest in Boost Skill Investments Limited.

2. The percentage is calculated on the basis of 3,454,317,644 Shares in issue as at 31 March 2011.

Save as disclosed above, no long positions of the Directors in the shares of the associated corporations of the Company was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Short positions in the Shares

No short positions of Directors in the Shares or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Short positions in underlying shares

No short positions of Directors in the underlying shares of the equity derivatives of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Short positions in debentures

No short positions of Directors in the debentures of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, at 31 March 2011, none of the Directors or chief executive of the Company had any interests in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

At 31 March 2011, the following persons or companies (other than the Directors or chief executive of the Company) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### Long positions in the Shares

| Name of Substantial Shareholder | Capacity/ Nature of interest | Number of ordinary shares in the Company held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Bonus Raider Investments Limited *(Note 1)* | Beneficial owner | 2,406,117,500 | 20.16% *(Note 2)* |
| China Water Industry Group Limited *(Note 1)* | Interest of a controlled corporation | 2,406,117,500 | 20.16% *(Note 2)* |

*Notes:*

1. These shares are registered in the name of Bonus Raider Investments Limited, which is a wholly-owned subsidiary of China Water Industry Group Limited.

2. The percentage is based on 11,935,080,400 issued Shares as at 31 March 2011.

## Long positions in underlying shares

(a) Convertible preference shares of HK$0.04 each of the Company (the "Convertible Preference Shares")

| Name of holder | Capacity | Number of Shares entitled pursuant to the full exercise of the Convertible Preference Shares held as at 31 March 2011 |
|---|---|---|
| Will Success Holdings Limited *(Note 1)* | Beneficial Owner | 0 |
| Even Glory Holdings Limited *(Note 2)* | Beneficial Owner | 7,146,194,600 |
| Chen Lixue *(Note 1&2)* | Interest of a controlled corporation | 7,146,194,600 |
| Wang Hongjun *(Note 2)* | Interest of a controlled corporation | 7,146,194,600 |

*Note:*

1. Will Success Holdings Limited is a company wholly-owned by Mr. Chen Lixue.
2. Even Glory Holdings Limited ("Even Glory") is a company owned by Mr. Chen Lixue and Mr. Wang Hongiun respectively. Each of them holds 50% of the interests of Even Glory.

(b) Convertible bonds (the "Convertible Bonds")

| Name of holder | Capacity | Number of Shares entitled pursuant to the full exercise of the Convertible bonds held as at 31 March 2011 |
|---|---|---|
| Will Success Holdings Limited *(Note 1)* | Beneficial Owner | 1,250,000,000 |
| Even Glory Holdings Limited *(Note 2)* | Beneficial Owner | 2,500,000,000 |
| Chen Lixue *(Note 1&2)* | Interest of a controlled corporation | 3,750,000,000 |
| Wang Hongjun *(Note 2)* | Interest of a controlled corporation | 2,500,000,000 |

*Note:*

1. Will Success Holdings Limited is a company wholly-owned by Mr. Chen Lixue.
2. Even Glory is a company owned by Mr. Chen Lixue and Mr. Wang Hongjun respectively. Each of them holds 50% of the interests of Even Glory.

### Short positions in the Shares

No short positions of other persons and substantial shareholders in the Shares were recorded in the register.

### Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, at 31 March 2011, the Directors were not aware of any persons or companies (other than the Directors or chief executive of the Company) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' interests and short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations" above and in the share option scheme disclosures in note 34 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

## SHARE OPTION SCHEMES

Detailed disclosures relating to the Company's share option schemes are set out in note 34 to the financial statements.

## CONNECTED TRANSACTIONS

During the year under review, there were no other transactions to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## COMPETING INTERESTS

During the year under review, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business that competed with the Group or might compete with the business of the Group.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has three members comprising all the independent non-executive Directors, namely, Mr. Chang Kin Man as the chairman of the Audit Committee, Mr. Wu Tak Lung and Mr. Lam Tze Chung. All committee members possess appropriate industry and financial experience to advise on the Group's strategy and other matters. The composition of the Audit Committee meets the requirements of Rule 5.28 of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the adequacy and effectiveness of the accounting and financial controls of the Group, oversee the performance of internal control systems and financial reporting process, monitor the integrity of the financial statements and compliance with statutory and listing requirements and to oversee independence and qualifications of the external auditors.

During the year under review, four meetings were held by the Audit Committee to approve the nature and scope of the statutory audits, and review the quarterly, interim and annual financial statements of the Group, and was content that the accounting policies and standards of the Group are in accordance with the current best practices in Hong Kong.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor. The Company's annual audited results for the year ended 31 March 2011 have been reviewed by the Audit Committee.

## CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 19 to 24 of this report.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 34 to the financial statements.

## CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## SUFFICIENT OF PUBLIC FLOAT

As far as the information publicly available to the company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

## AUDITORS

Messrs. SHINEWING (HK) CPA Limited will hold office as the auditors of the Company until the conclusion of the forthcoming annual general meeting.

By Order of the Board
**Yau Yan Ming Raymond**
*Chairman*

Hong Kong
5 August 2011

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to the principles of corporate governance and have dedicated significant efforts to provide transparency, accountability and independence.

The Company has applied the principles and, save as the deviation disclosed herein, has complied with all the applicable code provisions of the Code of Corporate Governance Practice (the "Code") as set out in Appendix 15 to the GEM Listing Rules throughout the year ended 31 March 2011.

## THE BOARD

### Composition

The Board currently comprises eight Directors in total, with five executive Directors and three independent non-executive Directors. The Directors during the year and up to the date of this report were as follows:

*Executive Directors*
Mr. Yau Yan Ming Raymond
Mr. Chan Wai Keung (Appointed on 21 October 2010)
Mr. Yang Bin
Mr. Li Wen Jun
Mr. Wong Ka Chun Carson

*Independent non-executive Directors*
Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Lam Tze Chung

The Board currently has three independent non-executive Directors, namely Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Lam Tze Chung. All of them hold appropriate professional and accounting qualifications and accounting under Rule 5.05(2) of the GEM Listing Rules.

Each independent non-executive Director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

Save for the co-directorship of Mr. Chang Kin Man and Mr. Wu Tak Lung as the independent non-executive director of China Water Industry Group Limited, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board. All of them are free to exercise their independent judgement.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment or those who were appointed by the Board during the year to fill any casual vacancy.

## Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 March 2011, four regular board meetings, four audit committee meetings and two remuneration committee meetings were held. The individual attendance record of each Director at the meetings during the financial year is set out below:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| **Name of Directors** | **Board** | **Audit Committee** | **Remuneration Committee** |
| *Executive Director* | | | |
| Mr. Yau Yan Ming Raymond | 4/4 | N/A | 2/2 |
| Mr. Chan Wai Keung (Appointed on 21 October 2010) | 2/4 | N/A | N/A |
| Mr. Yang Bin | 4/4 | N/A | N/A |
| Mr. Li Wen Jun | 4/4 | N/A | N/A |
| Mr. Wong Ka Chun Carson | 4/4 | N/A | N/A |
| *Independent non-executive Director* | | | |
| Mr. Chang Kin Man | 4/4 | 4/4 | 2/2 |
| Mr. Wu Tak Lung | 4/4 | 4/4 | 2/2 |
| Mr. Lam Tze Chung | 4/4 | 4/4 | 1/2 |

## Practices and Conduct of Meetings

The principal roles of the Board are to oversee the Group's strategic development, to approve the Company's objectives, strategies and policies and to monitor the operational and financial performance of the Group. The Board also reviews and approves the quarterly and annual reports of the Group.

The executive Directors and senior management meet every week to review company business matters and escalate the matters to the Board meeting for further discussion whenever necessary. The Board and each Director also have separate and independent access to the senior management whenever necessary. Moreover, they have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and who advises the Board on corporate governance and compliance matters.

The independent non-executive Directors have a wide range of experience and calibre. They bring independent and valuable advice and judgment on the Group's business strategy, investments and risk management issues.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The monitoring of business operations and implementation of business plans and strategies adopted by the Board are performed by senior management led primarily by the executive Directors. The executive Directors and senior managements are delegated to take primary responsibility for the oversight and management of the Group's day-to-day operations.

## Audit Committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has three members comprising all the independent non-executive Directors, namely, Mr. Chang Kin Man as the chairman of the Audit Committee, Mr. Wu Tak Lung and Mr. Lam Tze Chung. All committee members possess appropriate industry and financial experience to advise on the Group's strategy and other matters. The composition of the Audit Committee meets the requirements of Rule 5.28 of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the adequacy and effectiveness of the accounting and financial controls of the Group, oversee the performance of internal control systems and financial reporting process, monitor the integrity of the financial statements and compliance with statutory and listing requirements and to oversee independence and qualifications of the external auditors.

During the year under review, four meetings were held by the Audit Committee to approve the nature and scope of the statutory audits, and review the quarterly, interim and annual financial statements of the Group, and was content that the accounting policies and standards of the Group are in accordance with the current best practices in Hong Kong.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor. The Company's annual audited results for the year ended 31 March 2011 have been reviewed by the Audit Committee.

## Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") comprises four members, namely, Mr. Yau Yan Ming Raymond, Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Lam Tze Chung. The committee is chaired by Mr. Yau Yan Ming Raymond who is the Chairman of the Board and other members are independent non-executive Directors.

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference follows the requirement of Code Provision B.1.3.

During the year under review, two meetings were held by the Remuneration Committee to make recommendation to the Board on the Company's policy and structure for all remuneration of directors and senior management and to determine the remuneration packages of executives directors and senior management, according to the major scope, responsibilities and duties, importance of position of the directors and the senior management as well as the remuneration level of the related position in the market.

The principle functions of the Remuneration Committee include recommending to the Board the policy and structure for the remuneration of the executive Directors and senior management, determining the specific remuneration packages of all the executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to executive Directors and senior management, ensuring no Director is involved in deciding his own remuneration and approving the service contracts of Directors and senior management. The Remuneration Committee meets annually, or on an ad hoc basis.

## NOMINATION OF DIRECTORS

The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested in the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the articles of association of the Company.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the articles of association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an additional to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

During the year, the board nominated and appointed Mr. Chan Wai Keung as an executive Director under the said criteria.

## COMPLIANCE WITH THE CODE

The Company has complied with the Code throughout the financial year ended 31 March 2011 except for deviation from code provisions below:

### Chairman and chief executive officer

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated.

During the year under review, the Company has applied the principles and complied with all the applicable code provisions in the Code as set out in Appendix 15 to the GEM Listing Rules, save as the following deviation.

Under code provision A.2.1, the roles of chairman and chief executive officer should be separated. Mr. Yau Yan Ming Raymond ("Mr. Yau") serves as the Chairman of the Board and the chief executive officer of the Company. The reason for not splitting the roles of chairman and chief executive officer are as follows:

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and

- The Group has in place an internal control system to perform the check and balance function.

On 21 October 2010, Mr. Chan Wai Keung ("Mr. Chan") was appointed as the executive Director and chief executive officer of the Company. In line with the appointment of Mr. Chan, Mr. Yau ceased to serve as the chief executive officer of the Company. Thus, as at the date of this report, no deviation from the Code has been made.

### Appointment term of non-executive directors

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years.

All independent non-executive Directors were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

## COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the year ended 31 March 2011, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a clear and understandable assessment of annual and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2011.

The statement of the external auditor of the Company about the reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" in this annual report.

The remuneration of the external auditor of the Company in respect of audit services for the year ended 31 March 2011 amounted to HK$600,000. The Tax Services Department of the Company's external auditor provided tax services to the Company and its subsidiaries for the year ended 31 March 2011 for fees totaling HK$25,600.

## INTERNAL CONTROLS

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial operational, compliance control and risk management functions.

The Board recognizes the importance of maintaining a sound internal control system to safeguard shareholders' interest and investments and manage the Group's assets and liabilities. Senior management assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control and risk management system with the guidance of the executive Directors.

The Board has delegated to management the implementation of such system of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. Qualified personnel maintain and monitor the compliance to these controls on an ongoing basis and report any variations to the executive Directors in the weekly meetings.

The Compliance Officer independently reviews these controls and evaluates their adequacy, effectiveness and compliance, and reports directly to the Chief Executive Officer on a regular basis.

The Group's internal control system highlights several important areas:

- Check and balance

  All senior and sensitive positions and tasks will have check and balance control requiring either dual signatures or maker-checker functions. Major transactions or undertakings will have level control, thorough discussions, requiring different levels of review and approval.

- Segregation of duties

  Clear segregation of duties is in place to provide segregate control of important duties.

Based on the assessment made by the senior management on the Group's corporate governance practices and also on the review by the Board on the effectiveness of the Group's internal control systems covering financial, operational and risk management controls, the Board is satisfied that during the financial year ended 31 March 2008:

- The internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication;

- There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group; and

- The Group's internal control systems are adequate and effective and the Group has complied with the code provisions on internal control of the Code on Corporate Governance Practices.

## BUSINESS ETHICS AND PROFESSIONAL CODE OF CONDUCTS

The Group puts high standards on business ethics and professional conducts. Employees are briefed regularly on the code of ethics and on the conducts of keeping confidentiality of the information of business partners and the Group.

The Group also adopts good employment standards of non-discrimination policy and fair compensation scheme.

信永中和
ShineWing

**SHINEWING** (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

**TO THE MEMBERS OF iMERCHANTS LIMITED**
**菱控有限公司**
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements of iMerchants Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 85, which comprise the consolidated and Company's 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 FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of 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 financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 the 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 financial statements.

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

## BASIS FOR QUALIFIED OPINION

### Loan receivables

As explained in note 24 to the financial statements, included in loans receivables were amounts advanced to two independent third parties amounting to HK$10,000,000 and HK$9,500,000 respectively. Impairment of HK$18,800,000 were recognised during the year ended 31 March 2011 for these two loans receivables. We have not been provided with sufficient evidence to satisfy ourselves as to whether these impairment losses determined by the directors of the Company against the carrying amounts of the two loans receivables were fairly stated. There are no other satisfactory audit procedures that we could adopt to ascertain the amount of impairment and the carrying value of the aforesaid loan receivables as at 31 March 2011 being fairly stated in the consolidated statement of financial position.

Any consequential effect in connection with the above matters would affect the net assets of the Group as at 31 March 2011 and the Group's net loss for the year ended 31 March 2011, and the related disclosures in the financial statements.

## QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion, the financial statements give a true and fair view of the state of affairs of the Company and 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 Hong Kong Companies Ordinance.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the loan receivables, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Ip Yu Chak**
Practising Certificate Number: P04798

Hong Kong
5 August 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 March 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| Turnover | 7 | **119,728** | 108,633 |
| Revenue | 8 | **114,626** | 8,595 |
| Cost of sale | | **(65,296)** | (29,637) |
| Gross profit (loss) | | **49,330** | (21,042) |
| Investment income | | **22** | 29 |
| Other income | 9 | **25** | 357 |
| Net gain (loss) on disposal of available-for-sale investments | | **3,220** | (17,830) |
| Net gain on disposal of listed trading securities | | **–** | 1,729 |
| Impairment loss on goodwill | 19 | **(16,952)** | (14,377) |
| Impairment loss on investment deposits | 23(c) | **(5,000)** | – |
| Impairment loss on other receivables | 23(c) | **(116)** | (18,240) |
| Impairment loss on loan receivables | 24 | **(18,800)** | – |
| Impairment loss on intangible asset | 18 | **(271,168)** | – |
| Selling expenses | | **(3,310)** | (5,292) |
| Administrative expenses | | **(11,964)** | (12,177) |
| Finance costs | 10 | **(14,093)** | (5,923) |
| Loss before taxation | 11 | **(288,806)** | (92,766) |
| Income tax expense | 13 | **(28,496)** | (390) |
| Loss for the year | | **(317,302)** | (93,156) |
| Other comprehensive income (expense) for the year | | | |
| Exchange difference arising on translation | | **40,324** | 65 |
| Change in fair value of available-for-sale investments | | **–** | 4,147 |
| Release of investment revaluation reserve upon disposal of available-for-sale investments | | **(4,452)** | 54,378 |
| Total comprehensive expense for the year | | **(281,430)** | (34,566) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(316,804)** | (92,503) |
| Non-controlling interests | | **(498)** | (653) |
| | | **(317,302)** | (93,156) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(280,946)** | (33,926) |
| Non-controlling interests | | **(484)** | (640) |
| | | **(281,430)** | (34,566) |
| Dividends | 14 | **–** | – |
| Loss per share (HK cents) | | | |
| Basic and diluted | 15 | **(5.57)** | (3.12) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 March 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 16 | **6,170** | 6,875 |
| Prepaid lease payments | 17 | **2,627** | 2,576 |
| Intangible asset | 18 | **606,089** | 899,874 |
| Goodwill | 19 | **–** | 16,952 |
| Available-for-sale investments | 21 | **–** | 6,312 |
| | | **614,886** | 932,589 |
| Current assets | | | |
| Inventories | 22 | **–** | 799 |
| Trade and other receivables | 23 | **135,703** | 2,663 |
| Loan receivables | 24 | **700** | 2,500 |
| Prepaid lease payments | 17 | **63** | 60 |
| Cash held at non-bank financial institutions | 25 | **598** | 25,711 |
| Bank balances and cash | 25 | **343** | 21,925 |
| | | **137,407** | 53,658 |
| Current liabilities | | | |
| Trade and other payables | 26 | **9,104** | 3,989 |
| Secured other loans | 27 | **4,169** | – |
| Amount due to a non-controlling shareholder of a subsidiary | 28 | **2,645** | 2,542 |
| Income tax payables | | **28,777** | 364 |
| | | **44,695** | 6,895 |
| Net current assets | | **92,712** | 46,763 |
| Total assets less current liabilities | | **707,598** | 979,352 |
| Capital and reserves | | | |
| Share capital | 29 | **477,403** | 125,555 |
| Non-redeemable convertible preference shares | 30 | **285,848** | 587,696 |
| Reserves | | **(157,499)** | 139,940 |
| Equity attributable to owners of the Company | | **605,752** | 853,191 |
| Non-controlling interests | | **27** | 511 |
| **Total equity** | | **605,779** | 853,702 |
| Non-current liabilities | | | |
| Secured other loans | 27 | **–** | 3,990 |
| Convertible bonds | 31 | **101,819** | 121,660 |
| | | **101,819** | 125,650 |
| | | **707,598** | 979,352 |

The consolidated financial statements on pages 27 to 85 were approved and authorised for issue by the board of directors on 5 August 2011 and are signed on its behalf by:

*Director* *Director*

# STATEMENT OF FINANCIAL POSITION

*At 31 March 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Non-current asset | | | |
| Investments in subsidiaries | 20 | **705,354** | 957,575 |
| Current assets | | | |
| Amounts due from subsidiaries | 20 | **3,563** | 20,487 |
| Bank balances | 25 | **64** | 65 |
| | | **3,627** | 20,552 |
| Current liabilities | | | |
| Other payables | 26 | **600** | 1,590 |
| Amounts due to subsidiaries | 20 | **2,838** | 2,838 |
| | | **3,438** | 4,428 |
| Net current assets | | **189** | 16,124 |
| Total assets less current liabilities | | **705,543** | 973,699 |
| Capital and reserves | | | |
| Share capital | 29 | **477,403** | 125,555 |
| Non-redeemable convertible preference shares | 30 | **285,848** | 587,696 |
| Reserves | 32 | **(159,527)** | 138,788 |
| Total equity | | **603,724** | 852,039 |
| Non-current liability | | | |
| Convertible bonds | 31 | **101,819** | 121,660 |
| | | **705,543** | 973,699 |

*Director*

*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2011*

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 *(Note 29)* | Non-redeemable convertible preference shares HK$'000 *(Note 30, Note c)* | Share Premium HK$'000 | Capital redemption reserve HK$'000 | Merger reserve HK$'000 *(Note b)* | Investment revaluation reserve HK$'000 | Special capital reserve HK$'000 *(Notes a and c)* | Translation reserve HK$'000 | Equity component of convertible bonds HK$'000 *(Note 31)* | Accumulated profits (losses) HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 April 2009 | 113,251 | – | – | 3,297 | 45,918 | (54,073) | 60,592 | (104) | – | 8,619 | 177,500 | 1,151 | 178,651 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 58,525 | – | 52 | – | (92,503) | (33,926) | (640) | (34,566) |
| Issuance of shares | 12,304 | – | 46,142 | – | – | – | – | – | – | – | 58,446 | – | 58,446 |
| Issue of non-redeemable preference shares *(Note c)* | – | 587,696 | – | – | – | – | (20,570) | – | – | – | 567,126 | – | 567,126 |
| Issue of convertible bonds | – | – | – | – | – | – | – | – | 84,045 | – | 84,045 | – | 84,045 |
| At 31 March 2010 | 125,555 | 587,696 | 46,142 | 3,297 | 45,918 | 4,452 | 40,022 | (52) | 84,045 | (83,884) | 853,191 | 511 | 853,702 |
| At 1 April 2010 | 125,555 | 587,696 | 46,142 | 3,297 | 45,918 | 4,452 | 40,022 | (52) | 84,045 | (83,884) | 853,191 | 511 | 853,702 |
| Total comprehensive income (expense) for the year | **–** | **–** | **–** | **–** | **–** | **(4,452)** | **–** | **40,310** | **–** | **(316,804)** | **(280,946)** | **(484)** | **(281,430)** |
| Issuance of shares upon conversion of convertible bonds | **50,000** | **–** | **4,518** | **–** | **–** | **–** | **–** | **–** | **(21,011)** | **–** | **33,507** | **–** | **33,507** |
| Issuance of shares upon conversion of non-redeemable convertible preference shares | **301,848** | **(301,848)** | **(10,565)** | **–** | **–** | **–** | **10,565** | **–** | **–** | **–** | **–** | **–** | **–** |
| At 31 March 2011 | **477,403** | **285,848** | **40,095** | **3,297** | **45,918** | **–** | **50,587** | **40,258** | **63,034** | **(400,688)** | **605,752** | **27** | **605,779** |

*Notes:*

(a) Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 22 July 2005 and the subsequent order of the High Court of Hong Kong ("the High Court") made on 13 December 2005, the entire amount of HK$207,130,000 then standing to the credit of the share premium accounts of the Company was cancelled in accordance with the provisions of the Hong Kong Companies Ordinance (the "Capital Reduction").

Out of the credit arising from the Capital Reduction, HK$146,538,000 was applied to eliminate the accumulated losses of the Company as at 31 March 2005 and the remaining balance of HK$60,592,000 of the credit arising from the Capital Reduction was credited to a special capital reserve in the accounting records of the Company.

(b) The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's shares issued as consideration for the acquisition in March 2000 less the premium arising on repurchase of shares and the amount transferred to the capital redemption reserve.

(c) On 23 October 2009, the Company issued approximately 2,938,478,000 non-redeemable convertible preference shares with a par value of HK$0.2 each, as subsequently subdivided of share of HK$0.2 each into five shares of HK$0.04 per share, as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary (Notes 33). The fair value of the convertible preference shares as at 23 October 2009 amounted to approximately HK$567,126,000, representing HK$0.193 per convertible preference share. The discount of approximately HK$20,570,000, which represented the difference between the fair value of the non-redeemable convertible preference shares as of 23 October 2009 and the par value, is charged to the special capital reserve of the Company.

During the year ended 31 March 2011, the discount charged to the special capital reserve was proportionately transferred to the share premium account of the Company upon the conversion of approximately 7,546,195,000 non-redeemable convertible preference shares, out of total of approximately 14,692,390,000, into ordinary shares with a par value of HK$0.04 per share.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2011*

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss before taxation | **(288,806)** | (92,766) |
| Adjustments for: | | |
| Finance costs | **14,093** | 5,923 |
| Amortisation of intangible asset | **62,875** | 25,710 |
| Depreciation of property, plant and equipment | **460** | 466 |
| Amortisation of prepaid lease payments | **62** | 60 |
| Allowance for inventories | **252** | – |
| Impairment loss on property, plant and equipment | **564** | – |
| Impairment loss on trade receivables | **600** | 775 |
| Impairment loss on other receivables | **116** | 18,240 |
| Impairment loss on investment deposits | **5,000** | – |
| Impairment loss on goodwill | **16,952** | 14,377 |
| Impairment loss on loan receivables | **18,800** | – |
| Impairment loss on intangible asset | **271,168** | – |
| Interest income | **(5)** | (5) |
| Dividends from listed available-for-sales investments | **(22)** | (29) |
| Net (gain) loss on disposal of available-for-sale investments | **(3,220)** | 17,830 |
| Operating cash flows before movements in working capital | **98,889** | (9,419) |
| Dividends received from listed available-for-sales investments | **22** | 29 |
| Decrease (increase) in inventories | **547** | (655) |
| (Increase) decrease in trade and other receivables | **(115,711)** | 1,073 |
| Decrease in available-for-sale investments | **5,080** | 88,235 |
| Decrease (increase) in cash held at non-bank financial institutions | **25,113** | (16,808) |
| Increase in trade and other payables | **5,115** | 917 |
| CASH GENERATED FROM OPERATING ACTIVITIES | **19,055** | 63,372 |
| Income tax paid | **(83)** | (26) |
| NET CASH FROM OPERATING ACTIVITIES | **18,972** | 63,346 |
| INVESTING ACTIVITIES | | |
| (Payment for) refund of deposits for potential investment projects | **(23,095)** | 27,470 |
| Increase in loan receivables | **(17,000)** | – |
| Purchases of property, plant and equipment | **(26)** | (850) |
| Interest received | **5** | 5 |
| Net cash outflow in respect of the acquisition of an intangible asset through acquisition of a subsidiary *(Note 33)* | **–** | (98,890) |
| NET CASH USED IN INVESTING ACTIVITIES | **(40,116)** | (72,265) |
| FINANCING ACTIVITIES | | |
| Advance from (repayment to) a non-controlling shareholder of a subsidiary | **103** | (389) |
| Interest paid | **(427)** | (218) |
| New secured other loans raised | **–** | 3,983 |
| Repayment of secured other loans | **–** | (1,300) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | **(324)** | 2,076 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(21,468)** | (6,843) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **21,925** | 28,765 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **(114)** | 3 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash | **343** | 21,925 |

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in Corporate Information Section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than the Group's subsidiary established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries (the "Group") is HK$.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 20.

As at 31 March 2010, the immediate holding company and ultimate holding company are Bonus Raider Investments Limited ("Bonus Raider"), a company incorporated in the British Virgin Islands, and China Water Industry Group Limited ("China Water"), a company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. Following the conversion of convertible preference shares and convertible bonds during the year, the equity interest in the Company held by Bonus Raider and China Water was diluted and ceased to have controlling interest over the Company. As at 31 March 2011, the Company did not have a parent and ultimate holding company.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| Hong Kong Accounting Standard ("HKAS") 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 32 (Amendments) | Classification of Right Issues |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First-Time Adoption of HKFRSs |
| HKFRS 1 (Amendments) | Additional Exemptions for First Time Adopters |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| Hong Kong – Interpretation ("Int") 5 | Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause |
| Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") – Int 17 | Distributions of Non-cash Assets to Owners |

The adoption of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these financial statements and/or disclosures set out in these financial statements.

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

### HKFRS 3 (Revised) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the financial statements for the current or prior accounting periods.

Result of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

### 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.

This amendment has had no effect to the financial statements as the convertible bonds that were issued during the year ended 31 March 2010 were classified as non-current liabilities based on when cash settlement may be required to be made (see note 31). As at 31 March 2011, the liability component of the convertible bonds with the carrying amount of approximately HK$101,819,000 (2010: HK$121,660,000) has been presented as non-current liabilities.

### Amendments to HKAS 17 Lease

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 amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions set out in the amendments of HKAS 17, the Group reassessed the classification of land elements of unexpired leases at 1 April 2010 based on information which existed at the inception of these leases. The adoption of amendments to HKAS 17 Leases had no material impact on the financial statements.

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1] |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2] |
| HKFRS 1 (Amendments) | Severe Hyperinflaion and Removal of Fixed Dates for First-time Adopters[4] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[4] |
| HKFRS 9 | Financial Instruments[7] |
| HKFRS 10 | Consolidated Financial Statements[7] |
| HKFRS 11 | Joint Arrangements[7] |
| HKFRS 12 | Disclosure of Interests in Other Entities[7] |
| HKFRS 13 | Fair Value Measurement[7] |
| HKAS 1 (Revised) | Presentation of Financial Statements[6] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[5] |
| HKAS 19 (Revised) | Employee Benefits[7] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| HKAS 27 (Revised) | Separate Financial Statements[7] |
| HKAS 28 (Revised) | Investments in Associates and Joint Ventures[7] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 July 2012
7 Effective for annual periods beginning on or after 1 January 2013

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.

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.

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

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. 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 presented in other comprehensive income, unless the presentation 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 presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised standard is applied in future accounting periods. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial positions of the Company and the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

### Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other matters of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

### Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary 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.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss on the statement of financial position of the Company.

### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units that are expected to benefit from synergies of the acquisition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an 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 the profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

### Revenue recognition

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

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

Management service income including that from operating service provided under the management agreement is recognised when services are provided and the management service income can be measured reliably.

Sales of securities investments are recognised on a trade date basis.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### Leasing

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

### The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

### Leasehold land and building

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. Specially, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### Financial assets

The Group's financial assets are classified into one of the following categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

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

*Loans and receivables*

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

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial assets** *(continued)*

*Impairment loss on financial assets*

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, an impairment loss is recognised in the profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

Other financial liabilities including trade and other payables, secured other loans, amounts due to subsidiaries and amount due to a non-controlling shareholder of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

**Equity instruments**

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

**Convertible bonds containing liability and equity components**

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity component of convertible bonds.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity component of convertible bonds until the embedded option is exercised (in which case the balance stated in equity component of convertible bonds will be transferred to share premium).

Where the option remains unexercised at the expiry date, the balance stated in equity component of convertible bonds will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

#### Non-redeemable convertible preference shares

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividend is discretionary.

#### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

### Equity-settled share-based payment transactions

*Share options granted to employees (on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005)*

The financial impact of share options granted is not recorded in the financial statements until such time as the options are exercised, and no charge is recognised in the profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

### Government grants

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

### Inventories

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

### Cash and cash equivalents

Bank balances and cash in the statements of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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

### Borrowing costs

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

### Retirement benefits costs

Payments to central pension scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

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

### Critical judgements in applying the entity's accounting policies

#### Ownership of buildings

The building ownership certificates of the Group were not granted formal titles from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise these buildings on the grounds that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling the usage of these buildings.

#### Pending litigations

The Group had certain pending litigations as at the end of the reporting period. Significant judgement is required in determining whether it is probable than an outflow of resources will be required to settle the pending litigations in which case a provision for the potential litigation expenses is recognised.

### Key sources of estimation uncertainty

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

#### Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of comprehensive income. As at 31 March 2011, the carrying amounts of property, plant and equipment were approximately HK$6,170,000 (2010: HK$6,875,000) (net of accumulated impairment loss of approximately HK$564,000 (2010: nil)).

#### Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 March 2011, the carrying amount of trade receivables was approximately HK$115,417,000 (2010: HK$928,000) (net of accumulated impairment loss of approximately HK$1,437,000 (2010: HK$787,000)).

#### Allowance for inventories

The management of the Group reviews the inventories listing on a product-by-product basis at the end of the reporting period and makes allowance for slow moving inventory items amounting to approximately HK$252,000 (2010: nil) and the carrying amount of inventories is nil (2010: HK$799,000). The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions and the historical experience of manufacturing and selling products of similar nature.

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

### Key sources of estimation uncertainty *(continued)*

#### Impairment loss recognised in respect of other receivables, loan receivables and investment deposits

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2011, the carrying amounts of other receivables, investment deposits and loan receivables are approximately HK$1,140,000 (2010: HK$321,000), HK$18,095,000 (2010: nil) and HK$700,000 (2010: HK$2,500,000) respectively (net of accumulated impairment loss of other receivables of approximately HK$18,356,000 (2010: HK$18,240,000), accumulated impairment loss of investment deposits and loan receivables of approximately HK$5,000,000 (2010: nil) and HK$18,800,000 (2010: nil).

#### Impairment loss recognised in respect of intangible asset

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. As at 31 March 2011, the carrying amount of intangible asset was approximately HK$606,089,000 (2010: HK$899,874,000) (net of accumulated impairment loss of approximately HK$271,168,000 (2010: nil)).

#### Impairment loss recognised in respect of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2011, the carrying amount of goodwill was nil (2010: HK$16,952,000) (net of accumulated impairment loss of approximately HK$31,329,000 (2010: HK$14,377,000)). Details of impairment testing on goodwill are set out in Note 19.

#### Impairment loss of investments in subsidiaries and amounts due from subsidiaries

The Company assesses whether there are any indicators of impairment for investments in subsidiaries and amounts due from subsidiaries at the end of each reporting period. Determining whether investment in subsidiaries is impaired requires an estimation of the value-in-use of the investment in subsidiaries. The value in use calculation requires the Company to make an estimate of the expected future cash flow from the subsidiaries and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

### Key sources of estimation uncertainty *(continued)*

**Impairment loss of investments in subsidiaries and amounts due from subsidiaries** *(continued)*

For the amounts due from subsidiaries, the Company makes impairment based on the assessment of the recoverability of these amounts. Impairment loss is applied to amount due from subsidiaries where events or changes in circumstances indicate that the balances may not be collectible or when the net present value of the amounts is less than their respective carrying amounts. The identification of impairment loss requires the use of judgment and estimates. Where the expectation on the recoverability of the amount due from subsidiaries is different from the original estimate, such difference will impact the carrying value of the amount due from subsidiaries and the impairment in the period in which such estimate has been changed. As at 31 March 2011, the carrying amount of investments in subsidiaries and amount due from subsidiaries were approximately HK$705,354,000 and HK$3,563,000 respectively (2010: HK$957,575,000 and HK$20,487,000) (net of accumulated impairment loss of investments in subsidiaries approximately HK$252,221,000 (2010: nil) and accumulated impairment loss of amounts due from subsidiaries approximately HK$193,276,000 (2010: HK$179,876,000)).

## 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of secured other loans and convertible bonds disclosed in Notes 27 and 31, respectively, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

## 6. FINANCIAL INSTRUMENTS

### 6a. Categories of financial instruments

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Financial assets** | | |
| – Loans and receivables (including cash and cash equivalents) | **135,352** | 51,385 |
| – Available-for-sale investments | **–** | 6,312 |
| **Financial liabilities** | | |
| – At amortised cost | **117,737** | 132,157 |

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Financial assets** | | |
| – Loans and receivables (including cash and cash equivalents) | **3,627** | 20,552 |
| **Financial liabilities** | | |
| – At amortised cost | **105,257** | 126,088 |

# 6. FINANCIAL INSTRUMENTS *(continued)*

## 6b. Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade and other receivables, loan receivables, cash held at non-bank financial institutions, bank balances and cash, available-for-sale investments, trade and other payables, secured other loans, amount due to a non-controlling shareholder of a subsidiary, convertible bonds and amounts due from/to subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Market risk

*Currency risk*

The directors of the Company believe that the Group and the Company do not have significant foreign exchange exposures as majority of the Group's revenue are denominated in the functional currency of the Company or its subsidiaries. Certain bank balances and cash held in non-bank financial institutions are denominated in United States dollar ("USD").

| | **As at 31 March 2011 HK$'000** | As at 31 March 2010 HK$'000 |
|---|---|---|
| Assets | **474** | 458 |

The directors of the Company believe that under the pegging currency mechanism between HK$ and USD, the currency risk exposure in relation to these assets is minimal. The directors of the Company continuously monitor the related foreign currency exposure and will hedge significant foreign currency exposure should the need arise.

*Other price risk*

For the year ended 31 March 2010, the Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at 31 March 2010.

If the prices of the respective equity instruments had been 5% higher/lower, the investment revaluation reserve would increase/decrease by approximately HK$316,000 for the Group as a result of the changes in fair value of available-for-sale investments for the year ended 31 March 2010. The Group has no equity securities and is not exposed to equity price risk as at 31 March 2011.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### 6b. Financial risk management objectives and policies *(continued)*

**Market risk** *(continued)*

*Interest rate risk*

The Group was exposed to fair value interest rate risk in relation to fixed-rate loan receivables and secured other loans. Details of the loan receivables and secured other loans are disclosed in notes 24 and 27 respectively. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group was also exposed to cash flow interest rate risk relates to bank balances and cash held at non-bank financial institutions while the Company's exposure related to bank balances carried at prevailing market rate. However, such exposure is minimal to the Group and the Company as the bank balance and cash held at non-bank financial institutions are all short-term in nature.

The Group's and the Company's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Since the Group's and the Company's exposure to interest rate risk is minimal, no sensitivity analysis has been prepared.

**Credit risk**

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

The Group has no significant credit risks as it has policies in place to ensure that sales of products are made to customers with appropriate credit history. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group only transacts with entities with good repayment history. In additions, the Company reviews the recoverable amount of amounts due from subsidiaries at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has concentration of credit risk as 99% (2010: 100%) of the total trade receivables were due from the Group's customers (2011: provision of management services segment, 2010: the manufacture and trading of ceramic sewage materials segment)

The Group's concentration of credit risk by geographical locations is in the PRC, which accounted for 100% (2010: 100%) of total trade receivables as at 31 March 2011.

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

For other financial assets, such as cash held at non-bank financial institutions the Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### 6b. Financial risk management objectives and policies *(continued)*

**Liquidity risk**

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

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

*Liquidity risk tables*

**The Group**

| | Less than one year HK$'000 | More than one year but less than two years HK$'000 | More than two years but less than five years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31 March HK$'000 |
|---|---|---|---|---|---|
| 2011 | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | **9,104** | **–** | **–** | **9,104** | **9,104** |
| Secured other loans – fixed rate | **4,495** | **–** | **–** | **4,495** | **4,169** |
| Convertible bonds | **–** | **–** | **150,000** | **150,000** | **101,819** |
| Amount due to a non-controlling shareholder of a subsidiary | **2,645** | **–** | **–** | **2,645** | **2,645** |
| | **16,244** | **–** | **150,000** | **166,244** | **117,737** |
| 2010 | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | 3,965 | – | – | 3,965 | 3,965 |
| Secured other loans – fixed rate | – | 4,745 | – | 4,745 | 3,990 |
| Convertible bonds | – | – | 200,000 | 200,000 | 121,660 |
| Amount due to a non-controlling shareholder of a subsidiary | 2,542 | – | – | 2,542 | 2,542 |
| | 6,507 | 4,745 | 200,000 | 211,252 | 132,157 |

## 6. FINANCIAL INSTRUMENTS *(continued)*

### 6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

*Liquidity risk tables (continued)*

**The Company**

| | Less than one year HK$'000 | More than two years but less than five years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31 March HK$'000 |
|---|---|---|---|---|
| 2011 | | | | |
| **Non-derivative financial liabilities** | | | | |
| Other payables | **600** | **–** | **600** | **600** |
| Amounts due to subsidiaries | **2,838** | **–** | **2,838** | **2,838** |
| Convertible bonds | **–** | **150,000** | **150,000** | **101,819** |
| | **3,438** | **150,000** | **153,438** | **105,257** |
| 2010 | | | | |
| **Non-derivative financial liabilities** | | | | |
| Other payables | 1,590 | – | 1,590 | 1,590 |
| Amounts due to subsidiaries | 2,838 | – | 2,838 | 2,838 |
| Convertible bonds | – | 200,000 | 200,000 | 121,660 |
| | 4,428 | 200,000 | 204,428 | 126,088 |

### 6c. Fair values

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values due to their immediate or short-term maturities.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### 6c. Fair values *(continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, 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 market 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).

**The Group**

| | **31 March 2011** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Available-for-sale financial assets | | | | |
| Listed equity securities | – | – | – | – |

| | **31 March 2010** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Available-for-sale financial assets | | | | |
| Listed equity securities | 6,312 | – | – | 6,312 |

All the available-for-sale financial assets were disposed during current year and the amount of approximately HK$4,452,000 reported as "investment revaluation reserve" was transferred to profit or loss in current year.

The Company had no financial instruments that are measured at fair value as at the year ended 31 March 2011.

## 7. TURNOVER

Turnover represents gross proceeds from sale of investments, management service fee income, dividend and interest income from investments as well as revenue generated from manufacture and trading of ceramic sewage materials, and is analysed as follows:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Proceeds from disposal of available-for-sale investments | **5,080** | 88,235 |
| Proceeds from disposal of financial assets at fair value through profit or loss | **–** | 11,774 |
| Dividends from listed available-for-sale investments | **22** | 29 |
| Turnover from investments | **5,102** | 100,038 |
| Management service fee income | **108,986** | – |
| Revenue from manufacture and trading of ceramic sewage materials | **5,640** | 8,595 |
| | **119,728** | 108,633 |

## 8. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

In order to better evaluate the nature and financial effects of the business activities on which the Group engages and the economic environments in which the Group operates, the Group has changed the composition of the reportable segments in the current year. The business segment for the comparable period has been restated accordingly.

Before the change of composition of the reportable segments, the operating segments operated by the Group was (a) investment in financial and investment products and (b) manufacture and trading of ceramic sewage materials.

After the change of composition of business segments, the Group's operating and reportable segments under HKFRS 8 are as follows:

(a) Provision of management services

(b) Investment in financial and investment products

(c) Manufacture and trading of ceramic sewage materials

Information regarding the above segments is reported below.

## 8. SEGMENT INFORMATION *(continued)*

Segment information about these reportable segments is presented below:

### Segment Revenue and Results

*For the year ended 31 March*

| | Provision of management services | | Investment in financial and investment products | | Manufacture and trading of ceramic sewage materials | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| SEGMENT REVENUE: | | | | | | | | |
| External sales | **108,986** | – | **–** | – | **5,640** | 8,595 | **114,626** | 8,595 |
| Investment income | **–** | – | **22** | 29 | **–** | – | **22** | 29 |
| | **108,986** | – | **22** | 29 | **5,640** | 8,595 | **114,648** | 8,624 |
| SEGMENT RESULTS | **(225,057)** | (25,710) | **3,242** | (16,203) | **(18,914)** | (35,274) | **(240,729)** | (77,187) |
| Unallocated corporate income and expenses | | | | | | | **(48,077)** | (15,579) |
| Loss before taxation | | | | | | | **(288,806)** | (92,766) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment (loss) profit represents the loss from/profit earned by each segment without allocation of central administration costs, directors' salaries, impairment loss on investment deposits and loan receivables, interest income and finance costs. This is the measure reported to the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance.

## 8. SEGMENT INFORMATION *(continued)*

### Segment Assets and Liabilities

*As at 31 March*

| | Provision of management services | | Investment in financial and investment products | | Manufacture and trading of ceramic sewage materials | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| ASSETS | | | | | | | | |
| Segment assets | **720,811** | 899,874 | **598** | 32,023 | **10,236** | 28,707 | **731,645** | 960,604 |
| Unallocated segment assets | | | | | | | **20,648** | 25,643 |
| Total assets | | | | | | | **752,293** | 986,247 |
| LIABILITIES | | | | | | | | |
| Segment liabilities | **5,736** | – | **–** | – | **5,410** | 5,301 | **11,146** | 5,301 |
| Unallocated segment liabilities | | | | | | | **135,368** | 127,244 |
| Total liabilities | | | | | | | **146,514** | 132,545 |

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

- all assets are allocated to reportable segments, other than bank balances and cash and assets which are not able to allocate into reportable segments.
- all liabilities are allocated to reportable segments, other than secured other loans, income tax payables, convertible bonds and certain other payables which are not able to allocate into reportable segments.

## 8. SEGMENT INFORMATION *(continued)*

### Segment Assets and Liabilities *(continued)*

*For the year ended 31 March*

| | Provision of management services | | Investment in financial and investment products | | Manufacture and trading of ceramic sewage materials | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| OTHER SEGMENT INFORMATION: | | | | | | | | |
| Amounts included in the measure of segment profit or loss or segment asset: | | | | | | | | |
| Addition to non-current assets *(Note)* | **–** | 925,584 | **–** | – | **26** | 850 | **26** | 926,434 |
| Depreciation of property, plant and equipment and amortisation of prepaid lease payments | **–** | – | **–** | – | **418** | 488 | **418** | 488 |
| Amortisation of intangible asset | **62,875** | 25,710 | **–** | – | **–** | – | **62,875** | 25,710 |
| Net (gain) loss on disposal of available-for-sale investments | **–** | – | **(3,220)** | 17,830 | **–** | – | **(3,220)** | 17,830 |
| Net gain on disposal of listed trading securities | **–** | – | **–** | (1,729) | **–** | – | **–** | (1,729) |
| Allowance for inventories | **–** | – | **–** | – | **252** | – | **252** | – |
| Impairment loss on property, plant and equipment | **–** | – | **–** | – | **564** | – | **564** | – |
| Impairment loss on trade receivables | **–** | – | **–** | – | **600** | 775 | **600** | 775 |
| Impairment loss on other receivables | **–** | – | **–** | – | **116** | 18,240 | **116** | 18,240 |
| Impairment loss on goodwill | **–** | – | **–** | – | **16,952** | 14,377 | **16,952** | 14,377 |
| Impairment loss on intangible asset | **271,168** | – | **–** | – | **–** | – | **271,168** | – |
| Amounts regularly provided to the chief operation decision maker but not included in measure of segment profit or loss or segment assets: | | | | | | | | |
| Depreciation of unallocated property, plant and equipment | **–** | – | **104** | 38 | **–** | – | **104** | 38 |
| Impairment loss on unallocated investment deposits | **–** | – | **5,000** | – | **–** | – | **5,000** | – |
| Impairment loss on loan receivables | **–** | – | **18,800** | – | **–** | – | **18,800** | – |
| Interest income | **–** | – | **(3)** | (3) | **(2)** | (2) | **(5)** | (5) |
| Finance costs | **13,666** | 5,705 | **–** | – | **427** | 218 | **14,093** | 5,923 |
| Income tax expense | **28,397** | – | **–** | – | **99** | 390 | **28,496** | 390 |

*Note:* Non-current assets exclude available-for-sale investments.

## 8. SEGMENT INFORMATION *(continued)*

### Geographical information

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are disclosed below:

| | Revenue from external customers | | Non-current assets *(note)* | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| The PRC | **114,626** | 8,595 | **614,832** | 926,206 |
| Hong Kong | **–** | – | **54** | 71 |
| | **114,626** | 8,595 | **614,886** | 926,277 |

*Note:* Non-current assets excluded available-for-sale investments

### Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A[1] | **–** | 2,197 |
| Customer B[1] | **N/A**[3] | 5,685 |
| Customer C[2] | **108,986** | – |

1 Revenue from manufacture and trading of ceramic sewage materials.

2 Revenue from provision of management services.

3 The corresponding revenue did not contribute over 10% of the total sales of the Group during the year ended 31 March 2011.

## 9. OTHER INCOME

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Interest income | **5** | 5 |
| Government subsidies *(Note)* | **–** | 307 |
| Net exchange gain | **–** | 8 |
| Sundries | **20** | 37 |
| | **25** | 357 |

*Note:* The amounts represented the unconditional subsidies granted from the PRC government for the Group's contribution to environmental protection for the year ended 31 March 2010 (2011: nil).

## 10. FINANCE COSTS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Imputed interest expenses on convertible bonds *(Note 31)* | **13,666** | 5,705 |
| Interest expenses on secured other loans wholly repayable within five years | **427** | 218 |
| | **14,093** | 5,923 |

## 11. LOSS BEFORE TAXATION

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Loss before taxation has been arrived at after charging: | | |
| Staff costs (including directors' emoluments) | | |
| Salaries and allowances | **3,595** | 4,103 |
| Retirement benefits scheme contributions | **79** | 75 |
| | **3,674** | 4,178 |
| Amortisation of intangible asset (included in cost of sale) | **62,875** | 25,710 |
| Amortisation of prepaid lease payments | **62** | 60 |
| Auditor's remuneration | **550** | 480 |
| Cost of inventories recognised as expenses | **2,421** | 3,927 |
| Depreciation of property, plant and equipment | **460** | 466 |
| Allowance for inventories (included in cost of sale) | **252** | – |
| Impairment loss on property, plant and equipment | **564** | – |
| Impairment loss on trade receivables (included in administrative expenses) | **600** | 775 |
| Operating lease charges in respect of rented premises | **1,253** | 1,168 |

## 12. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES

(a) The emoluments paid or payable to each of the eight (2010: eight) directors, were as follows:

**For the year ended 31 March 2011**

| Name of Director | Fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| *Executive directors:* | | | | |
| Mr. Chan Wai Keung (appointed on 21 October 2010) | – | 250 | 4 | 254 |
| Mr. Yau Yan Ming Raymond | – | 585 | 12 | 597 |
| Mr. Yang Bin | – | 475 | 12 | 487 |
| Mr. Li Wen Jun | – | 420 | 12 | 432 |
| Mr. Wong Ka Chun Carson | – | 390 | 12 | 402 |
| *Independent non-executive directors:* | | | | |
| Mr. Wu Tak Lung | 144 | – | – | 144 |
| Mr. Chang Kin Man | 120 | – | – | 120 |
| Mr. Lam Tze Chung | 144 | – | – | 144 |
| | 408 | 2,120 | 52 | 2,580 |

## 12. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(continued)*

(a) For the year ended 31 March 2010

| Name of Director | Fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| *Executive directors:* | | | | |
| Mr. Yau Yan Ming Raymond | – | 585 | 12 | 597 |
| Mr. Yang Bin | – | 435 | 12 | 447 |
| Mr. Li Wen Jun | – | 370 | 12 | 382 |
| Mr. Wong Ka Chun Carson | – | 370 | 12 | 382 |
| *Independent non-executive directors:* | | | | |
| Mr. Wu Tak Lung | 144 | – | – | 144 |
| Mr. Chang Kin Man | 120 | – | – | 120 |
| Mr. Lam Tze Chung (appointed on 19 November 2009) | 53 | – | – | 53 |
| Mr. Pan Chik (resigned on 19 November 2009) | 91 | – | – | 91 |
| | 408 | 1,760 | 48 | 2,216 |

There was no arrangement under which directors waived or agreed to waive any emoluments during both years.

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 12. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(continued)*

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2010: four) were directors of the Company whose emoluments are included in the disclosures in Note 12(a) above. The emoluments of the remaining one (2010: one) individuals were as follows:

| | **Year ended 31/3/2011 HK$'000** | Year ended 31/3/2010 HK$'000 |
|---|---|---|
| Salaries and allowances | **364** | 364 |
| Retirement benefits scheme contributions | **12** | 12 |
| | **376** | 376 |

The emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **Year ended 31/3/2011** | Year ended 31/3/2010 |
| Nil to HK$1,000,000 | **1** | 1 |

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 March 2011.

## 13. INCOME TAX EXPENSE

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| PRC Enterprise Income Tax ("EIT") | | |
| – Current | **28,496** | 364 |
| – Under provision in prior years | **–** | 26 |
| | **28,496** | 390 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profit Tax had been made as the Group did not generate any assessable profits in Hong Kong for the year ended 31 March 2011 and no tax is payable on the profit for the year ended 31 March 2010 arising in Hong Kong since the assessable profit was wholly absorbed by tax losses brought forward.

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years.

The income tax expense for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Loss before taxation | **(288,806)** | (92,766) |
| Taxation at domestic income tax rate of 25% (2010: 16.5%) *(Note)* | **(72,202)** | (15,306) |
| Tax effect of expenses not deductible for tax purpose | **97,340** | 15,595 |
| Tax effect of income not taxable for tax purpose | **(536)** | (13) |
| Tax effect of deductible temporary differences not recognised | **380** | 128 |
| Utilisation of tax losses previously not recognised | **(46)** | (231) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **3,560** | 191 |
| Under provision in prior years | **–** | 26 |
| Tax expense for the year | **28,496** | 390 |

*Note:* The domestic income tax rate in the jurisdiction where the operation of the Group substantially based is used.

At 31 March 2011, the Group had unused estimated tax losses of approximately HK$121,833,000 (2010: HK$122,017,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The estimated tax losses may be carried forward indefinitely.

At 31 March 2011, the Group also has other deductible temporary differences of approximately HK$2,295,000 (2010: HK$775,000). No deferred tax assets has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2011, nor has any dividend been proposed since the end of the reporting period (2010: nil).

## 15. LOSS PER SHARE

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Loss** | | |
| Loss for the purposes of basic loss per share (loss for the year attributable to owners of the Company) | **(316,804)** | (92,503) |
| **Number of shares** | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **5,690,757** | 2,966,118 |

Diluted loss per share was same as the basic loss per share for the year ended 31 March 2011 and 2010, as the effect of the conversion of the Company's convertible bonds and non-redeemable convertible preference shares were anti-dilutive for the year ended 31 March 2011 and 2010.

The weighted average number of ordinary shares for the year ended 31 March 2010 for the purpose of basic loss per share has been adjusted for the share subdivision on 2 November 2009.

## 16. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Buildings HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 April 2009 | 3,003 | 699 | 169 | 113 | 2,626 | 6,610 |
| Additions | – | 256 | 26 | – | 568 | 850 |
| Transfers | 3,221 | – | – | – | (3,221) | – |
| Exchange realignment | 42 | 9 | – | 1 | 27 | 79 |
| At 31 March 2010 | 6,266 | 964 | 195 | 114 | – | 7,539 |
| Additions | – | – | 26 | – | – | 26 |
| Exchange realignment | 281 | 42 | 2 | 5 | – | 330 |
| At 31 March 2011 | 6,547 | 1,006 | 223 | 119 | – | 7,895 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 April 2009 | 68 | 79 | 38 | 13 | – | 198 |
| Depreciation provided for the year | 208 | 189 | 46 | 23 | – | 466 |
| At 31 March 2010 | 276 | 268 | 84 | 36 | – | 664 |
| Depreciation provided for the year | 227 | 158 | 52 | 23 | – | 460 |
| Impairment loss recognised in the year | – | 564 | – | – | – | 564 |
| Exchange realignment | 19 | 16 | – | 2 | – | 37 |
| At 31 March 2011 | 522 | 1,006 | 136 | 61 | – | 1,725 |
| CARRYING VALUES | | | | | | |
| At 31 March 2011 | 6,025 | – | 87 | 58 | – | 6,170 |
| At 31 March 2010 | 5,990 | 696 | 111 | 78 | – | 6,875 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | Over the shorter of lease term of the lease and 30 years |
| Plant and machinery | 5 to 10 years |
| Furniture, fixtures and office equipment | 5 years |
| Motor vehicles | 5 years |

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

As at 31 March 2011, the Company has not obtained the building ownership certificates for buildings with carrying value of approximately HK$6,025,000 (2010: HK$5,990,000). The buildings are situated in the PRC and are situated on land under medium-term land use right. In the opinion of the directors, the absence of building ownership certificates to these buildings does not impair the value of the buildings to the Group.

During the year ended 31 March 2011, the directors of the Company carried out a review on the recoverable amount of certain production facilities. The Group recognised an impairment loss of approximately HK$564,000 in the consolidated statement of comprehensive income for the year ended 31 March 2011 as the relevant assets were left idle.

## 17. PREPAID LEASE PAYMENTS

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| The Group's prepaid lease payment comprised: | | |
| Leasehold land in the PRC under medium-term leases | **2,690** | 2,636 |

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Analysed for reporting purposes as: | | |
| Current assets | **63** | 60 |
| Non-current assets | **2,627** | 2,576 |
| | **2,690** | 2,636 |

As at 31 March 2011, the Group had pledged prepaid lease payments with carrying value of approximately HK$2,690,000 (2010: HK$2,636,000) to secure other loans granted to the Group.

## 18. INTANGIBLE ASSET

| | The Group HK$'000 |
|---|---|
| COST | |
| At 1 April 2009 | – |
| Acquired through acquisition of a subsidiary *(Note 33)* | 925,584 |
| At 31 March 2010, 1 April 2010 | 925,584 |
| Exchange realignment | 41,408 |
| At 31 March 2011 | 966,992 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT | |
| At 1 April 2009 | – |
| Provided for the year | 25,710 |
| At 31 March 2010 and 1 April 2010 | 25,710 |
| Provided for the year | 62,875 |
| Impairment loss recognised in the year | 271,168 |
| Exchange realignment | 1,150 |
| At 31 March 2011 | 360,903 |
| CARRYING VALUES | |
| At 31 March 2011 | 606,089 |
| At 31 March 2010 | 899,874 |

The intangible asset represented the exclusive right derived from a management agreement ("Management Agreement") to receive management fee equivalent to 70% of the net profits of Shenzhen Careall Capital Investment Co., Ltd ("Shenzhen Careall"), a company established in the PRC and being an independent third party of the Group. Under the Management Agreement, Shenzhen Careall and one of the ultimate beneficial owner of the vendor of Supreme Luck Limited ("Supreme Luck") shall irrevocably and unconditionally warrant, guarantee and undertake to and with Supreme Luck that the net profits of Shenzhen Careall during the one-year period commencing from the date of the Management Agreement, 19 August 2009, shall not be less than approximately HK$113,380,000 (equivalent to RMB100,000,000); the second one-year period commencing from the date of the Management Agreement shall not be less than approximately HK$170,070,000 (equivalent to RMB150,000,000); and the third one-year period commencing from the date of the Management Agreement shall not be less than approximately HK$226,760,000 (equivalents to RMB200,000,000). The shareholders of Shenzhen Careall have signed a share pledge agreement with Supreme Luck that all the rights and interests in the registered capital of Shenzhen Careall are pledged in favour of Supreme Luck for the period covered under the Management Agreement. Shenzhen Careall principally engaged in venture investment, venture investment advisory and management services, with the objective of investment in the equities of the new technology-based enterprises in the PRC. The exclusive right was acquired through the acquisition of the entire issued share capital of Supreme Luck during the year ended 31 March 2010. Details of which are set out in Note 33.

The intangible asset is amortised on straight-line basis over its estimated useful lives of 15 years.

## 18. INTANGIBLE ASSET *(continued)*

The recoverable amount of the exclusive right has been determined on the basis of value-in-use calculation with reference to a valuation performed by Grant Sherman Appraisal Limited, an independent qualified valuer not connected to the Group. The value-in-use calculations use cash flow projections of 14 years (2010: 15 years) and based on financial budgets approved by management of the Company covering a 3-year period, and a discount rate of 21.52% (2010: 20.23%). Cash flows beyond the 3-year period have been extrapolated using a steady 3% growth rate. This rate is based on the relevant track record of Shenzhen Careall and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period for the exclusive right is based on the budgeted sales and expected realisable profit during the budget period and the similar quality of new investments during the budget period. Expected cash inflows/ outflows, which include budgeted sales of listed securities, cost of acquiring new investment portfolio and other direct costs have been determined based on past performance and management's expectations for the market development. The directors of the Company are of the opinion that the recoverable amount is less than its respective carrying amount as at 31 March 2011, accordingly an impairment loss of approximately HK$271,168,000 (2010: nil) was recognised.

## 19. GOODWILL

| | **The Group**<br>HK$'000 |
|---|---|
| COST | |
| At 1 April 2009 | 49,569 |
| Adjustment to measurement of consideration for acquisition in prior period *(Note)* | (18,240) |
| At 31 March 2010, 1 April 2010 and 31 March 2011 | 31,329 |
| IMPAIRMENT | |
| At 1 April 2009 | – |
| Impairment loss recognised in the year | 14,377 |
| At 31 March 2010 and 1 April 2010 | 14,377 |
| Impairment loss recognised in the year | 16,952 |
| At 31 March 2011 | 31,329 |
| CARRYING VALUE | |
| At 31 March 2011 | – |
| At 31 March 2010 | 16,952 |

*Note:* The goodwill was adjusted in the amount of approximately HK$18,240,000 attributable to the adjustment to consideration paid after the profit guarantee for the acquisition of Plenty One Limited was not met as at 31 March 2010. Details of the profit guaranteed are set out in the Company's circular dated 19 June 2008.

## 19. GOODWILL *(continued)*

The goodwill was recognised on acquisitions of a subsidiary, Plenty One Limited, which engaged in manufacture and trading of ceramic sewage materials. Accordingly, the goodwill was allocated to the cash generating unit ("CGU") of manufacture and trading of ceramic sewage materials.

The operation of the CGU was suspended during the year ended 31 March 2011. The Group has suffered loss from the CGU and as a result, the directors of the Company revisited the business plans and decided to outsource part of the manufacturing process to independent third parties. The Group is in the process of discussing with some potential sub-contractors but no specific contract was made as at the reporting date. In the opinion of the directors, impairment loss of approximately HK$16,952,000 was recognised as at 31 March 2011.

During the year ended 31 March 2010, the recoverable amount of this CGU has been determined on the basis of value-in-use calculation with reference to a valuation performed by Asset Appraisal Limited, a qualified valuer, not connected with the Group, that calculation uses cash flow projections of 15 years and based on financial budgets approved by management covering a 5 year periods, and discount rate of 17.58%. Cash flows beyond the 5 year periods have been extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The directors of the Company are of the opinion that, the recoverable amount is less than its respective carrying amount as at 31 March 2010, accordingly an impairment loss of approximately HK$14,377,000 was recognised.

## 20. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

| | **The Company** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **957,575** | 957,575 |
| Less: impairment loss recognised | **(252,221)** | – |
| | **705,354** | 957,575 |
| Amounts due from subsidiaries | **196,839** | 200,363 |
| Less: impairment loss recognised | **(193,276)** | (179,876) |
| | **3,563** | 20,487 |

Amounts due from and to subsidiaries are unsecured, interest-free and are repayable on demand.

## 20. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES *(continued)*

Details of the Company's principal subsidiaries at 31 March 2010 and 2011 are as follows:

| Name of subsidiary | Form of business structure | Place/country of incorporation/ operations | Issued and fully paid share capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| iMerchants Asia Limited | Incorporated | BVI/Hong Kong | Ordinary shares US$6,001,000 | 100% | – | Investment holdings, investments in financial and investment products and technology investment |
| iMerchants Consulting Limited | Incorporated | Hong Kong | Ordinary shares HK$100 | 100% | – | Inactive |
| iMerchants Services Limited | Incorporated | BVI | Ordinary shares US$1,000 | 100% | – | Inactive |
| Top Deluxe Limited | Incorporated | Hong Kong | Ordinary shares HK$10 | 100% | – | Inactive |
| Shine Gain Holdings Limited | Incorporated | BVI/Hong Kong | Ordinary shares US$100 | 100% | – | Investment holding |
| Plenty One Limited | Incorporated | BVI/Hong Kong | Ordinary shares US$100 | – | 100% | Investment holding |
| Ping Xiang City San He Lian Chuang Water Technology Company Limited ("Ping Xiang San He") (萍鄉市三和聯創水務科技有限公司) | Incorporated | PRC | RMB6,500,000 | – | 80% | Manufacture and trading of ceramic sewage materials |
| Growwise Holdings Limited | Incorporated | BVI | Ordinary shares US$1 | 100% | – | Investment holding |
| Top Connect Holding Limited | Incorporated | BVI | Ordinary shares US$1 | 100% | – | Not yet commenced business |
| Supreme Luck | Incorporated | BVI/Hong Kong | Ordinary shares US$1 | 100% | – | Investment holding and provision of management services |
| Great Knight Limited | Incorporated | BVI | Ordinary shares US$1 | 100% | – | Not yet commenced business |

None of the subsidiaries had any debt securities outstanding at the end of the both years or at any time during both years.

## 21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprised:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong, at fair value | **–** | 6,312 |

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

Certain available-for-sale investments were disposed during the year ended 31 March 2011 and 2010 and net gain on disposal of available-for-sale investments of approximately HK$3,220,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 March 2011 (2010: net loss of approximately HK$17,830,000).

## 22. INVENTORIES

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Raw materials | **–** | 332 |
| Finished goods | **–** | 467 |
| | **–** | 799 |

## 23. TRADE AND OTHER RECEIVABLES

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Management service fee receivables | **114,722** | – |
| Other trade receivables | **2,132** | 1,715 |
| Less: impairment loss recognised | **(1,437)** | (787) |
| | **115,417** | 928 |
| Investment deposits | **23,095** | – |
| Less: impairment loss recognised | **(5,000)** | – |
| | **18,095** | – |
| Other receivables | **19,496** | 18,561 |
| Less: impairment loss recognised | **(18,356)** | (18,240) |
| | **1,140** | 321 |
| Prepayments and deposits | **1,051** | 1,414 |
| | **135,703** | 2,663 |

Management service fee receivables are due upon the presentation of invoices and the Group allows an 180 days given to its customers.

As at 31 March 2011 and 31 March 2010, include in other receivables are receivables relating to profit guarantee provided by the vendor of Plenty One Limited of approximately HK$18,240,000 (2010: HK$18,240,000). Details are set out in Note 19.

As at 31 March 2011, included in investment deposits are refundable deposits amounting to HK$23,095,000 paid for potential investment projects.

## 23. TRADE AND OTHER RECEIVABLES *(continued)*

The following is an aged analysis of the trade receivables presented based on the invoice date net of impairment loss at the end of reporting period:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within 180 days | **–** | 542 |
| 181 to 365 days | **115,417** | 386 |
| | **115,417** | 928 |

(a) At 31 March 2011 and 2010, the aging analysis of trade receivables that were past due but not impaired are as follows:

**The Group**

| | **Total** | **Neither past due nor impaired** | **Past due but not impaired >180 days** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| 2011 | 115,417 | – | 115,417 |
| 2010 | 928 | 542 | 386 |

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired related to customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. Other than the management services fee receivables amounting to approximately HK$114,722,000 (2010: nil) was pledged by the rights and interests in the registered capital of Shenzhen Careall as disclosed in note 18, the Group does not hold any collateral over these balances.

(b) The movements in impairment loss of trade receivables were as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **787** | 10 |
| Recognised during the year | **600** | 775 |
| Exchange realignment | **50** | 2 |
| Balance at end of the year | **1,437** | 787 |

## 23. TRADE AND OTHER RECEIVABLES *(continued)*

(b) The movements in impairment loss of trade receivables were as follows: *(continued)*

Included in impairment loss are individually impaired trade receivables with an aggregate balance of approximately HK$1,437,000 (2010: HK$787,000) which were due to long outstanding. The Group does not hold any collateral over these balances.

(c) The movements in impairment loss of other receivables and investment deposits were as follows:

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Impairment loss of other receivables** | | |
| Balance at beginning of the year | **18,240** | – |
| Recognised during the year | **116** | 18,240 |
| Balance at end of the year | **18,356** | 18,240 |
| **Impairment loss of investment deposits** | | |
| Balance at beginning of the year | **–** | – |
| Recognised during the year | **5,000** | – |
| Balance at end of the year | **5,000** | – |

The Group has individually assessed all other receivables and investment deposits and provided impairment of the amounts that are considered not recoverable.

Included in impairment loss of other receivables are individually impaired relating to the profit guarantee provided by the vendor of Plenty One Limited with an aggregate balance of approximately HK$18,240,000 which the Company encountered difficulties in recovering as at 31 March 2011 and 2010.

Included in the impairment loss of investment deposits are individually impaired relating to the deposits paid for the potential investment in the PRC. Legal proceeding was filed against the deposit holders and the directors of the Company considered that the Company encountered difficulties in recovering the amount.

The above other receivables and investment deposits were secured by guarantees from different individuals and companies.

## 24. LOAN RECEIVABLES

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Loan receivables | **19,500** | 2,500 |
| Less: impairment loss recognised | **(18,800)** | – |
| | **700** | 2,500 |

Included in loan receivables were amounts advanced to two independent third parties (the "Borrowers") amounting to HK$10,000,000 and HK$9,500,000 respectively. Impairment loss of HK$18,800,000 was recognised in the consolidated income statement during the year ended 31 March 2011. The loan receivables are secured by personal guarantees from a major shareholder of the Borrowers, repayable within one year and carry interest at fixed rate of 0.5% or 1% per annum.

The Group has individually assessed all loan receivables and provided impairment for the amounts that are considered not recoverable.

## 25. CASH HELD AT NON-BANK FINANCIAL INSTITUTIONS/BANK BALANCES AND ASH

### The Group and the Company

Cash held at non-bank financial institutions and bank balances and cash comprise short-term deposits with an original maturity of three months or less, carrying interest at approximately ranging from 0% to 2.4% (2010: 0% to 2.4%) per annum.

## 26. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of reporting period:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 180 days | **–** | 304 | **–** | – |
| 181 to 365 days | **294** | 172 | **–** | – |
| Over 1 year | **168** | 233 | **–** | – |
| | **462** | 709 | **–** | – |
| Other payables | **8,642** | 3,280 | **600** | 1,590 |
| | **9,104** | 3,989 | **600** | 1,590 |

There was no specific credit period for payment granted by suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

## 27. SECURED OTHER LOANS

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Secured other loans – due within one year | **4,169** | – |
| Secured other loans – due more than one year but not exceeding two years | **–** | 3,990 |
| | **4,169** | 3,990 |

At 31 March 2011, secured other loans of approximately HK$4,169,000 (equivalent to RMB3,500,000) (2010: HK$3,990,000 (equivalent to RMB3,500,000)) were fixed-rate borrowings carrying interest at 10.53% (2010: 10.53%) per annum and repayable ranging from November 2011 to March 2012.

As at 31 March 2010 and 2011, the secured other loans were secured by prepaid lease payments.

## 28. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/ A SHAREHOLDER

### The Group and the Company

The amount due to a non-controlling shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

## 29. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Authorised: | | |
| Balance at 1 April 2009 of HK$0.2 each | 4,000,000,000 | 800,000 |
| Increased during the year *(Note a)* | 2,000,000,000 | 400,000 |
| Share subdivision *(Note c)* | 24,000,000,000 | – |
| Balance at 31 March 2010, 1 April 2010 and 31 March 2011 of HK$0.04 each | 30,000,000,000 | 1,200,000 |
| Issued and fully paid: | | |
| Balance at 1 April 2009 of HK$0.2 each | 566,255,000 | 113,251 |
| Issue of shares *(Note b)* | 61,522,160 | 12,304 |
| Share subdivision *(Note c)* | 2,511,108,640 | – |
| Balance at 31 March 2010 and 1 April 2010 of HK$0.04 each | 3,138,885,800 | 125,555 |
| Conversion of convertible preference shares *(Note d)* | 7,546,194,600 | 301,848 |
| Conversion of convertible bonds *(Note e)* | 1,250,000,000 | 50,000 |
| Balance at 31 March 2011 of HK$0.04 each | 11,935,080,400 | 477,403 |

*Notes:*

(a) Pursuant to an ordinary resolution passed in the extraordinary general meeting held on 17 September 2009, the shareholders of the Company approved the increase in authorised share capital of the Company from 4,000,000,000 ordinary shares of HK$0.20 each to 6,000,000,000 ordinary shares of HK$0.20 each by the creation of an additional 2,000,000,000 ordinary shares of HK$0.20 each.

(b) On 23 October 2009, the Company issued 61,522,160 ordinary shares with a par value of HK$0.2 each at a price of HK$0.95 per share. A sum of amount approximately HK$58,446,000 was raised and used as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary (Note 33).

(c) Pursuant to an ordinary resolution passed by the shareholders of the Company at an extraordinary general meeting held on 30 October 2009, the Company then issued and unissued ordinary shares of HK$0.2 each in the share capital of the Company were subdivided into 5 shares of HK$0.04 each ("Share Subdivision"). The existing authorised share capital of the ordinary shares of the Company was HK$1,200,000,000 but divided into 30,000,000,000 ordinary shares of HK$0.04 each. The Share Subdivision took place on 2 November 2009.

The subdivided shares and new shares issued rank pari passu in all respects with the shares in issue prior to the Share Subdivision and the rights attaching to the subdivided shares will not be affected by the Share Subdivision.

(d) During the year ended 31 March 2011, 7,546,194,600 non-redeemable convertible preference shares were converted into ordinary shares of HK$0.04 each.

(e) During the year ended 31 March 2011, the convertible bonds holders converted the convertible bonds with an aggregate principal amount of HK$50,000,000 into ordinary shares at conversion price of HK$0.04 each.

## 30. NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES

### The Group and the Company

| | Number of shares '000 | Amount HK$'000 |
|---|---|---|
| Authorised: | | |
| At 1 April 2009 | – | – |
| Non-redeemable convertible preference shares of HK$0.2 each | 4,000,000 | 800,000 |
| Subdivision of share of HK$0.2 each into five shares of HK$0.04 each *(Note)* | 16,000,000 | – |
| At 31 March 2010, 1 April 2010 and 31 March 2011, HK$0.04 each | 20,000,000 | 800,000 |
| Issued and fully paid: | | |
| At 1 April 2009 | – | – |
| Issue of preference shares, HK$0.2 each | 2,938,478 | 587,696 |
| Subdivision of share of HK$0.2 each into five shares of HK$0.04 each *(Note)* | 11,753,912 | – |
| At 31 March 2010 and 1 April 2010, HK$0.04 each | 14,692,390 | 587,696 |
| Conversion of non-redeemable convertible preference shares of the Company *(Note 29d)* | (7,546,195) | (301,848) |
| | 7,146,195 | 285,848 |

*Note:* Pursuant to an ordinary resolution passed by the Company' shareholders at an extraordinary general meeting held on 30 October 2009, the existing issued and unissued non-redeemable convertible preference shares of HK$0.2 each in the share capital of the Company are subdivided into 5 shares of HK$0.04 each. The authorised share capital of non-redeemable preference shares of the Company was remained at HK$800,000,000. The share subdivision took place on 2 November 2009.

On 23 October 2009, the Company issued approximately 2,938,478,000 non-redeemable convertible preference shares with a par value of HK$0.2 each, as part of consideration for the acquisition of an intangible asset through acquisition of a subsidiary (Note 33).

The valuation of the convertible preference shares was carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Group. The inputs for the calculation of the fair value were a blockage discount rate of 40% on convertible preference shares based on the restriction that the convertible preference shares cannot be converted into ordinary shares immediately. The variables and assumptions used in computing the fair value of the convertible preference shares are based on the directors' best estimate.

The fair value of the convertible preference shares as at 23 October 2009 amounted to approximately HK$567,126,000, representing HK$0.193 per convertible preference share. The amount of shortage of approximately HK$20,570,000 by which fair value was less than the par value of the non-redeemable convertible preference shares is charged to the special capital reserve of the Company.

## 30. NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES *(continued)*

The non-redeemable convertible preference shares can be converted into ordinary shares of the Company at HK$0.2 per share (subject to adjustment) as subsequently adjusted to HK$0.04 per share as a result of the Share Subdivision. The major terms of the above-mentioned convertible preference shares are set out below:

(1) The convertible preference share holders have the right, exercisable at any time perpetual as from the date of issue, to convert the preference shares into fully paid ordinary shares, provided that (i) any conversion of the convertible preference shares does not trigger a mandatory offer obligation under Rule 36 of the Hong Kong Code on Takeovers and Mergers; (ii) the number of shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible preference shares, in aggregate with the new ordinary shares issued and new ordinary shares to be issued upon the exercise of the conversion rights attaching to the convertible bonds as held by the holders and parties acting in concert with it, represents not more than 9.9% of the issued ordinary share capital of the Company; and/or (iii) the public float of the shares of the Company shall not less than 15% of the shares of the Company at any time.

(2) The convertible preference shares are transferable other than to connected persons, as defined under the Listing Rules of the GEM, of the Company and do not carry the right to vote. The convertible preference shares holders shall not be entitled to any dividend nor distribution.

(3) The convertible preference shares shall rank pari passu with any and all current and future preferred equity securities of the Company.

(4) The convertible preference shares are non-redeemable.

Based on their terms and conditions, the convertible preference shares have been classified as equity instrument in the statement of financial position of the Company.

## 31. CONVERTIBLE BONDS

On 23 October 2009, the Company issued zero-couple convertible bonds ("CB") with an aggregate principal amount of HK$200,000,000 to vendor as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary (Note 33). The CB holders are entitled to convert the bonds into ordinary shares of the Company at any time between the date of issue of the bonds and their settlement date on 23 October 2014 in multiples of HK$1,000,000 at the conversion price of HK$0.2 (subject to adjustment) per conversion share as subsequently adjusted to HK$0.04 per share as a result of the Share Subdivision. No conversion shall be made, if immediately upon such conversion, the bondholder and its parties acting in concert with in aggregate hold more than 9.9% of the issued share capital of the Company from time to time; and/or the public float of the Company's shares is less than 15% of the total issued shares of the Company. The Company has an early redemption option to redeem in whole or in part at par before the maturity date by serving seven days' prior written notice. Any amount of the bonds remains outstanding on the maturity date shall be redeemed at its then outstanding amount. The fair value of such early redemption option at the date of issue and subsequent reporting period was insignificant.

During the year ended 31 March 2011, 1,250,000,000 ordinary shares of HK$0.04 each were issued pursuant to the conversion of the HK$50,000,000 convertible bonds at a conversion price of HK$0.04 per share.

The CB contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds". The effective interest rate of the liability component is 11.52% per annum.

## 31. CONVERTIBLE BONDS *(continued)*

The movement of CB is as follows:

| | Liability component HK$'000 | Equity component HK$'000 | Total HK$'000 |
|---|---|---|---|
| At date of issue | 115,955 | 84,045 | 200,000 |
| Imputed interest charged for the year *(Note 10)* | 5,705 | – | 5,705 |
| At 31 March 2010 and 1 April 2010 | 121,660 | 84,045 | 205,705 |
| Imputed interest charged for the year *(Note 10)* | 13,666 | – | 13,666 |
| Conversion during the year *(Note 29e)* | (33,507) | (21,011) | (54,518) |
| At 31 March 2011 | 101,819 | 63,034 | 164,853 |

## 32. RESERVES

**The Company**

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Contributed surplus HK$'000 | Special capital reserve HK$'000 | Equity component of convertible bonds HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2009 | – | 3,297 | 31,104 | 60,592 | – | (56,390) | 38,603 |
| Total comprehensive expense for the year | – | – | – | – | – | (9,432) | (9,432) |
| Issuance of shares | 46,142 | – | – | – | – | – | 46,142 |
| Issue of non-redeemable preference shares | – | – | – | (20,570) | – | – | (20,570) |
| Issue of convertible bonds | – | – | – | – | 84,045 | – | 84,045 |
| At 31 March 2010 | 46,142 | 3,297 | 31,104 | 40,022 | 84,045 | (65,822) | 138,788 |
| Total comprehensive expense for the year | – | – | – | – | – | (281,822) | (281,822) |
| Issuance of shares upon conversion of non-redeemable convertible preference shares | (10,565) | – | – | 10,565 | – | – | – |
| Issuance of shares upon conversion of convertible bonds | 4,518 | – | – | – | (21,011) | – | (16,493) |
| At 31 March 2011 | 40,095 | 3,297 | 31,104 | 50,587 | 63,034 | (347,644) | (159,527) |

The contributed surplus of the Company represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued for the acquisition in March 2000 less the premium arising on repurchase of shares and amount transferred to the capital redemption reserve.

## 32. RESERVES *(continued)*

Under the Hong Kong Companies Ordinance, the contributed surplus of the Company is available for distribution if:

(1) at the time the distribution is made, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves; and

(2) the distribution does not reduce the amount of its net assets to less than the aggregate of its called up share capital and undistributable reserves.

In the opinion of the directors of the Company, at 31 March 2011, the reserves available for distribution to shareholders pursuant to the Hong Kong Companies Ordinance was nil (2010: HK$5,304,000).

## 33. ACQUISITION OF AN INTANGIBLE ASSET THROUGH ACQUISITION OF A SUBSIDIARY

On 23 October 2009, the Company acquired the entire issued share capital of Supreme Luck from an independent third party for a total consideration of approximately HK$925,572,000. The principal activity of Supreme Luck is an investment holding company and its major asset is an exclusive right to receive management fee from Shenzhen Careall. Shenzhen Careall is principally engaged in venture investment, venture investment advisory and management services. Shenzhen Careall mainly invests in the equities of the new technology-based enterprises in the PRC. Accordingly, the transaction has been accounted for as the acquisition of an intangible asset through acquisition of a subsidiary.

The net assets acquired in the transaction are as follows:

| | **2010**<br>HK$'000 |
|---|---|
| Net assets acquired: | |
| Intangible asset | 925,584 |
| Other payables | (12) |
| Net assets acquired | 925,572 |
| Total consideration satisfied by: | |
| Issue of ordinary shares *(Note)* | 58,446 |
| Issue of convertible bonds *(Note 31)* | 200,000 |
| Issue of non-redeemable convertible preference shares | 567,126 |
| Cash | 98,890 |
| Deferred consideration | 1,110 |
| | 925,572 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | 98,890 |

*Note:* As part of the consideration for the acquisition of Supreme Luck, 61,522,160 new ordinary shares of the Company with par value of HK$0.2 each were issued at the price of HK$0.95. The fair value of the ordinary shares issued was determined by reference to the published price available at the date of the acquisition.

## 33. ACQUISITION OF AN INTANGIBLE ASSET THROUGH ACQUISITION OF A SUBSIDIARY *(continued)*

Supreme Luck contributed approximately HK$25,710,000 to the Group's loss for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 April 2009, total Group's turnover for the year would remain unchanged and loss for the year ended 31 March 2010 would have been increased by approximately HK$35,996,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group 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.

## 34. SHARE OPTION SCHEMES

### Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 ("2002 Share Option Scheme")

Under the 2002 Share Option Scheme, the board of directors of the Company may grant share options at a consideration of HK$1 for each lot of share option granted to:

(a) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest (all of which to be referred as "Participants"); or

(b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Participants; or

(c) a company beneficially owned by any Participants.

The purpose of the 2002 Share Option Scheme is to recognise and acknowledge the contributions that Participants had made or may make to the Group. Share options granted are exercisable at any time during a period to be determined by the Board of Directors and such period must not be more than 10 years from the date of grant of the options.

The subscription price will not be less than the highest of the following:

(a) the nominal value of the Company's share;

(b) the closing price of the Company's shares as quoted on the date of the offer of the share options; and

(c) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the share option.

The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme and any other option schemes (excluding those share options that have already been granted by the Company prior to the date of approval of the 2002 Share Option Scheme) shall not, in aggregate, exceed 10% of the Company's shares in issue as at the date of approval of the 2002 Share Option Scheme or 30% of the entire issued ordinary share capital of the Company on the date of shareholders' approval for refreshment as stated below (as the case may be). The maximum number of shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of the Company's shares in issue from time to time.

## 34. SHARE OPTION SCHEMES *(continued)*

### Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 ("2002 Share Option Scheme") *(continued)*

The Company may seek approval from shareholders in general meeting for refreshing the 10% limit or for granting further share options beyond the 10% limit, provided that the share options in excess of the 10% limit are granted to those participants specified by the Company before such approval is sought.

The maximum number of shares in respect of which options might be granted to a grantee, when aggregated with shares issued and issuable under any share option granted to the same grantee under the 2002 Share Option Scheme in the 12-month period up to and including the date of such new grant must not exceed 1% of the Company's shares in issue as at the date of such new grant. The Company may seek approval of the shareholders of the Company at general meeting with such grantee and its associates abstaining from voting for granting further options above this limit. The number and terms of the share options to be granted to such grantee shall be fixed before the shareholders' approval and the exercise price for the shares in respect of the further share options proposed to be so granted, the date of board meeting for proposing such grant of further share options shall be taken as the date of offer of the share options.

The 2002 Share Option Scheme will expire on 1 August 2012.

There has been no option outstanding under 2002 Share Option Scheme as at 31 March 2010 and 2011.

## 35. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years. Rental was fixed at the inception of the lease.

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

| | **The Group** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **294** | 1,159 |
| In the second to fifth years inclusive | **2** | 290 |
| | **296** | 1,449 |

## 36. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualified employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. At the end of the reporting period, no forfeited contribution was available to reduce the contribution payable of future years.

The employees of the Company's subsidiary in the PRC are members of the pension schemes operated by the government of the PRC. The Company's subsidiary in the PRC is required to contribute a certain percentage of the relevant portion of these employees' basic salaries to the pension to fund the benefits. The only obligation of the Company's subsidiary in the PRC with respect to the pension scheme is the required contributions under the pension scheme.

The retirement benefits costs charged to consolidated statement of comprehensive income amounted to approximately HK$79,000 (2010: HK$75,000). The retirement benefits costs charged to consolidated statements of comprehensive income represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

## 37. RELATED PARTY DISCLOSURES

The balances with related parties at the end of the reporting period are disclosed elsewhere in the financial statements.

**Compensation of key management personnel**

The emoluments of directors and other members of key management of the Company during the year are disclosed in Note 12 above.

## 38. LITIGATION

(a) During the year ended 31 March, 2011, a wholly owned subsidiary of the Company, Ping Xiang San He, entered into the sub-contracting service agreement with sub-contractors for the manufacturing of ceramic sewage materials and petition has been filed against Ping Xiang San He for the transfer back of a deposit paid by sub-contractors of Ping Xiang San He amounting to approximately HK$978,000 (equivalent to RMB821,000), which had been paid to Ping Xiang San He according to the agreement, and the related losses incurred in respect of the breaching of the sub-contracting service agreement.

The directors of the Company, after consulting with the Group's legal counsel, are of the opinion that it is not probable to assess the outcomes of the legal proceedings for the time being. Even if the outcome turns out to be unfavourable, the directors of the Company consider that the settlements of those claims would not have any material effects on the financial statements of the Group and that an appropriate amount of provision has been made, if any.

## 38. LITIGATION *(continued)*

(b) During the year ended 31 March 2011, the Group entered into the memorandum of understanding with independent third parties (the "Vendors") and the Group had paid the investment deposits of HK$5,000,000 for the possible acquisition of the entire interest in a target company to the Vendors. However, the proposed acquisition did not proceed and the Vendors failed to refund the deposits to the Group. Petition has been filed against the Vendors for the investment deposits paid. According to the opinion from legal advisor, the probability of recovering the full amount of the investment deposits is low. Full impairment on the investment deposit was made during the current year (note 23(c)).

(c) On 26 May 2008, the Group entered into an agreement to purchase the entire issued share capital of Plenty One Limited, which in turn holds 80% interest in Ping Xiang San He. Details of the agreement was disclosed in the circular of the Company dated 19 June 2008. Pursuant to the agreement, the Group is entitled to a cash sum which is equal to the amount of the difference between the guaranteed profit and the net profit of Ping Xiang San He for the period from 1 June 2008 to 30 May 2010. The receivables in relation to the profit guarantee were recognised and such receivables were fully impaired during the year ended 31 March 2010 (note 23(c)).

On 28 July 2010, the Group and the vendor had come to an settlement which the vendor agreed to procure the transfer of the 20% interest in Ping Xiang San He to the Group as a compensation to the inability to fulfill the commitments on the guaranteed profit. The directors of the Company considered that the Group may have to engage in lengthy litigation progress in order to recover damages from the vendor. Upon obtaining opinion from legal advisor and reviewing of the current financial status of the vendor, the probability of recovering the full amount of the guaranteed profits as damages is low. The directors of the Company is still in the consideration of accepting the said settlement proposal.

## 39. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2010, part of the consideration for the acquisition of a subsidiary comprised ordinary shares, convertible bonds and non-redeemable preference shares, respectively. Further details of the acquisition are set out in Note 33 above.

## 40. EVENT AFTER THE REPORTING PERIOD

On 27 May 2011, 23 June 2011 and 28 June 2011, in aggregate of 3,740,000,000 ordinary shares of the Company were issued upon the exercise of the conversion rights attaching to the 3,740,000,000 non-redeemable convertible preference shares of HK$0.04 each by the holder.

## 41. COMPARATIVES FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation. The directors of the Company consider that reclassification of amortisation of intangible assets of approximately HK$25,710,000 from administrative expenses to cost of sale in the consolidated statement of comprehensive income and the reclassification of loan receivables of HK$2,500,000 from other receivables in the consolidated statement of financial position are more meaningful. As such reclassification has no impact on the amounts previously reported in the consolidated statement of financial position as at 1 April 2009, hence, the consolidated statement of financial position as at the beginning of the earliest comparative period was not presented.

# FINANCIAL SUMMARY

*For the year ended 31 March 2011*

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | **2011**<br>**HK$'000** |
| Turnover | 93,776 | 138,985 | 91,290 | 108,633 | **119,728** |
| Revenue | 88 | – | 1,637 | 8,595 | **114,626** |
| Cost of sale | – | – | (1,472) | (29,637) | **(65,296)** |
| Gross profit | 88 | – | 165 | (21,042) | **49,330** |
| Investment income | 3,436 | 2,767 | 423 | 29 | **22** |
| Net gain (loss) on disposal of debt securities | (131) | 1,132 | 1,143 | – | **–** |
| Net loss on disposal of available-for-sale investments | – | – | – | (17,830) | **3,220** |
| Net gain on disposal of listed trading securities | – | – | – | 1,729 | **–** |
| Net fair value change on listed trading securities | 10,399 | 7,423 | 3,400 | – | **–** |
| Increase in fair values of financial assets at fair value through profit or loss | 1,601 | 927 | 2,785 | – | **–** |
| Gain on disposal of convertible notes receivable | – | – | 1,328 | – | **–** |
| Other income | 1,216 | 5,559 | 1,295 | 357 | **25** |
| (Allowance) reversal for a convertible bond | (2,672) | 2,672 | – | – | **–** |
| Impairment loss on other receivables | – | – | – | (18,240) | **(116)** |
| Impairment loss on goodwill | – | – | – | (14,377) | **(16,952)** |
| Impairment loss on loan receivables | – | – | – | – | **(18,800)** |
| Impairment loss on intangible assets | – | – | – | – | **(271,168)** |
| Selling expenses | – | – | (202) | (5,292) | **(3,310)** |
| Administrative expenses | (11,534) | (11,654) | (7,988) | (12,177) | **(11,964)** |
| Finance costs | – | – | (106) | (5,923) | **(14,093)** |
| (Loss) profit before taxation | 2,403 | 8,826 | 2,243 | (92,766) | **(288,806)** |
| Income tax expense | – | – | – | (390) | **(28,496)** |
| (Loss) profit for the year | 2,403 | 8,826 | 2,243 | (93,156) | **(317,302)** |
| Attributed to: | | | | | |
| – Owners of the Company | 2,403 | 8,826 | 2,386 | (92,503) | **(316,804)** |
| – Minority interests | – | – | (143) | (653) | **(498)** |
| | 2,403 | 8,826 | 2,243 | (93,156) | **(317,302)** |

## ASSETS AND LIABILITIES

| | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | **2011**<br>**HK$'000** |
|---|---|---|---|---|---|
| Total assets | 225,840 | 230,891 | 184,769 | 986,247 | **752,293** |
| Total liabilities | (1,035) | (829) | (6,118) | (132,545) | **(146,514)** |
| Net assets | 224,805 | 230,062 | 178,651 | 853,702 | **605,779** |
| Equity attributable to equity holders of the Company | 224,805 | 230,062 | 177,500 | 853,191 | **605,752** |
| Minority interests | – | – | 1,151 | 511 | **27** |
| | 224,805 | 230,062 | 178,651 | 853,702 | **605,779** |