iMerchants Limited

Annual Report 2012

Stock Code : 8009

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

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This report, for which the directors (the "Directors") of iMerchants Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief 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. Zha Jian Ping *(Chief Executive Officer)*
Mr. Wong Ka Chun Carson
Ms. Qi Yue

Independent Non-executive Directors

Mr. Lam Tze Chung
Mr. Wu Ka Ho Stanley
Mr. Yue Laiqun

COMPANY SECRETARY

Mr. Yau Yan Ming Raymond

COMPLIANCE OFFICER

Mr. Yau Yan Ming Raymond

AUTHORISED REPRESENTATIVES

Mr. Yau Yan Ming Raymond
Mr. Zha Jian Ping

AUDIT COMMITTEE

Mr. Lam Tze Chung *(Chairman)*
Mr. Wu Ka Ho Stanley
Mr. Yue Laiqun

REMUNERATION COMMITTEE

Mr. Wu Ka Ho Stanley *(Chairman)*
Mr. Lam Tze Chung
Mr. Yue Laiqun
Mr. Yau Yan Ming Raymond

NOMINATION COMMITTEE

Mr. Yue Laiqun *(Chairman)*
Mr. Lam Tze Chung
Mr. Wu Ka Ho Stanley
Mr. Zha Jian Ping

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

Room 2306B-07, 23/F., West Tower
Shun Tak Centre
168-200 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

HLM & Co.
Certified Public Accountants

PRINCIPAL BANKERS

Chiyu Banking Corporation Ltd.
The Hongkong and Shanghai Banking Corporation 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 2012.

The global economy is still shadowed by the political uncertainty arises following elections in France and Greece. As a result, the future of the monetary union remains questionable. Except Germany growth indicators of other countries in the EU have shown economic weakness. In the US, the recovery process remains at a steady pace. Although labor market data was disappointing, the all-important ISM leading indicator leans to a positive direction. Consumer and business confidence have slowly regain while financial market conditions improved.

In May, The People's Bank of China has cut the reserve requirement ratio (RRR) by 50 bps which symbolizes the Chinese government is willing to intrude should the general growth outlook worsen. Chinese premier Wen Jaibao stated "the government would attach greater importance to stabilizing economic growth" which can be denoted as the government's determination in sustaining the economic growth. The RRR cuts results in lowering interbank's rates reducing corporate borrowing costs and increasing the money multiplier. Although these outcomes will further loosen constraints on back leading, we foreseen loan demands from companies will remain timid.

The disappointing macro data in April does not halt out positive expectations in China financial market. We believe with accommodative government policies taking place. China's GDP growth power will enhance in second quarter in year 2012. The growth has gradually taken over inflation as an immediate constraint to policy easing. We expect more fiscal measures to support growth in the near future such as policies to support domestic consumption and speeding up investment projects.

In the year 2012, the Company and Shenzhen Careall Capital Investment Co., Ltd. had achieved the expected results despite the rough Chinese stock market which was pressurized by the global economic uncertainty and the domestic stabilizing policies imposed by the Chinese government. Although the future yet to be increasingly challenging as foreseen. The management will continue to devote their commitments and efforts to maintain the growth of the managing portfolio, yet seeking opportunities in expending and diversify the Company's income stream by deliberately select profitable investment in various business segments which to be benefiting the short and long run growth of the Company.

PROSPECTS

In order to promote energy saving and carbon emission reduction and boost economic transformation, the PRC government proposed to reduce carbon emission per unit of GDP by 40%-50% by 2020 from that of 2005. Because of this, using natural gas to replace fossil fuels will develop into a trend since natural gas is the cleanest primary energy. In addition, based on the same quantity of heat generated by different energy sources in the PRC, natural gas price is far below the prices of fossil fuels. Thus, it is expected that natural gas consumption in the PRC will continue to grow steadily over the next 5-10 years. It is predicted that the PRC annual consumption of natural gas will reach 250 billion cubic meters by 2015 with CAGR of around 20%. Meanwhile, the application of natural gas will broaden as well, and it will replace the traditional fossil fuels to a large extent.

The Company has been focusing on the development of natural gas industry in the PRC and actively identifying suitable opportunities to invest in midstream transportation and downstream distribution projects in the Chinese natural gas supply chain. The Company has also been looking for suitable experts in the natural gas industry to strengthen its management team. The management of the Company believes that as prepared by the efforts and measures taken during the previous long preparation period, the Company is well positioned to participate in the development of Chinese energy industry, not only enabling shareholders to benefit from the structural adjustment process of Chinese energy market, but also contributing to energy saving and carbon emission reduction initiates in the PRC.

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, 25 June 2012

BUSINESS REVIEW

Management Contract

The turnover for the Company during the year ended 31 March 2012 came solely from the management service fee from the management agreement between Supreme Luck International Limited ("**Supreme Luck**") and Shenzhen Careall Capital Investment Co., Ltd. ("**Shenzhen Careall**") ("**Management Agreement**"). During the year 2012, the Company has received approximately RMB78,233,000 from Shenzhen Careall which represents the delayed outstanding amount of approximately RMB100,185,000 for the management service fee for the first relevant period. Such amount completely settles the entire management service fee for the first relevant period net of taxation and relating expenses. The management service fee chargeable for the second relevant period is to be approximately HK$118,292,000, based on the audited result for the period after deducting the related taxation and expenses which such amount was backed by the guarantee profit of approximately RMB105,000,000, hence a payment of approximately RMB40,000,000 was received during the year. The remaining amount is expected to be received by no later than July 2012. The independent non-executive Directors are satisfied with the current repayment schedule.

The People's Republic of China (the "**PRC**") government inflation control and stabilizing of the overheating economy policy had proven to be effective during the second half of the year 2011. Although the PRC government announced to reduce the reserve requirement ratio (RRR) by 50 basis points on May 2012 to adjust the economy in order to avoid over suppressing effect, the uncertainty of the Europe's debt crisis which may negatively influence the Chinese exports is still on-going. Therefore, the profitability of the companies in the investment portfolio owned by Careall Capital managed by the Company may ended up with a less optimistic result than forecasted previously. For the year ended 31 March 2012, we took a prudent approach to reconsider their future value and made an impairment loss on intangible assets of approximately HK$175,799,000.

Manufacturing and Trading of Ceramic Sewage Materials

The goodwill which was recognized on acquisitions of a subsidiary, Plenty One Limited, over the cash generating unit ("CGU") arise from the acquisition of the manufacture and trading of ceramic sewage materials subsidiary. In the opinion of the Directors, the goodwill has already been totally impaired and the impairment loss was approximately HK$13,000 for the current year. The operation of the CGU was suspended during the year ended 31 March 2011. Currently, the counterparty has given up his share of ownership of the factory as a compensation. The Directors agreed to the settlement with the vendor of Plenty One Limited that the profit guarantee of the CGU amounting to approximately HK$18,240,000 by transferring to the Group of the remaining 20% equity interest in Ping Xiang San He as compensation.

On 9 December 2011, the Board announced that the Group was going to dispose the segment of manufacturing and trading of ceramic sewage materials.

Investment Deposits and Loan Receivables

Two loan receivables totaling approximately HK$18,800,000 was being impaired last year due to the prolonged weak financial position of the borrowers even though part of the loan receivables of HK$18,800,000 are secured by personal guarantees from a major shareholder of the independent third parties. During the year of 2012, the Directors have been communicating with the borrowers to arrange for full repayment as well as continue the negotiation with the target party on recovering of the investment deposit of HK$5,000,000 which was also impaired last year. The Directors have also obtained legal opinion in regarding the possible actions and consequence which the Company may take against the parties. The Directors have been evaluating and considering the expenditure and the possibilities of recovering the loan although a lengthy and expensive legal procedure is involved, hence further actions will be taken once the situation becomes appropriate or as conditions permitted.

The loan receivable as at 31 March 2012 was approximately HK$3,683,000 (equivalent of RMB3,000,000) has been repaid as at the report date. The Company had hired a third independent professional to review the internal control of the Company. The Directors are pleased with the enhanced internal control policies imposed during the year and committed to maintain their effort over the control including credit risk assessment and procedures to monitor the assets.

Convertible Preference Shares

On 23 October 2009, the Company issued approximately 2,938,478,000 shares non-redeemable convertible preference shares with a par value of HK$0.2 each (later subdivided to HK$0.04 each), as part of consideration for the acquisition of an intangible asset through acquisition of a subsidiary, Supreme Luck International Limited. As at 31 March 2012, no convertible preference shares of HK$0.04 each were outstanding.

Convertible Bonds

On 23 October 2009, the Company issued zero-coupon convertible bonds with an aggregate principal amount of HK$200,000,000 as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary. During the year ended 31 March 2012, the Company had redeemed part of the convertible bonds amounted to HK$142,000,000. As at 31 March 2012, HK$8,000,000 were outstanding.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Change of Auditors

The Board announced that SHINEWING (HK) CPA Limited ("SHINEWING") resigned as auditors of the Group with effect from 1 November 2011 as the Company and SHINEWING could not reach a consensus on the audit fees for the financial year ending 31 March 2012. The Board also announces that HLM & Co. has been appointed as the auditors with effect from 1 November 2011 to fill the casual vacancy in the office of the auditors of the Group arising there from and will hold office until the conclusion of the next annual general meeting of the Company. Details of the change were set out in the announcement of the Company dated 1 November 2011.

Capital Reorganisation and Increase in Authorised Capital

The Shareholders had approved the resolutions proposed by the Directors at extraordinary general meeting (the "EGM") of the Company held on 12 December 2011 to effect the capital reorganisation of the Company which will involve:

(a) the Capital Reduction pursuant to the Companies Ordinance under which the authorised share capital of the Company will be reduced (1) from HK$1,200,000,000 divided into 30,000,000,000 ordinary Shares of HK$0.04 each to HK$120,000,000 divided into 30,000,000,000 ordinary Reduced Shares of HK$0.004 each and (2) from HK$800,000,000 divided into 20,000,000,000 preference Shares of HK$0.04 each to HK$80,000,000 divided into 20,000,000,000 preference Reduced Shares of HK$0.004 each and that such reduction be effected by cancelling HK$0.036 of the paid up capital on each issued Share of HK$0.04 and reducing the nominal value of each issued or unissued share in the capital of the Company from HK$0.04 per Share to HK$0.004 per Reduced Share;

(b) the Share Consolidation under which every twenty-five (25) Reduced Shares of HK$0.004 each will be combined into one Adjusted Share of HK$0.1 each immediately upon the Capital Reduction becoming effective;

(c) the board lot size for trading in the Shares will be changed from 25,000 Shares to 10,000 Adjusted Shares immediately upon the Capital Reorganisation becoming effective;

(d) Immediately upon the Capital Reduction becoming effective, the authorised share capital of the Company will be increased (1) from HK$120,000,000 divided into 1,200,000,000 ordinary Adjusted Shares to HK$1,000,000,000 divided into 10,000,000,000 ordinary Adjusted Shares by the creation of an additional 8,800,000,000 ordinary Adjusted Shares of par value HK$0.1 each and (2) from HK$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares of par value HK$0.1 each; and

(e) corresponding amendments to the Memorandum and Articles of Association.

The Directors also proposed to the Shareholders to adopt the New Share Option Scheme. For details and the meanings of the capitalised terms used in this section please refer to the announcement of the Company dated 9 November 2011, the circular of the Company dated 17 November 2011 and the announcement dated 12 December 2011.

On 29 May 2012, the Board of Directors announced that the Capital Reduction was approved by the Court on that date and it will take effect upon completion of registration with the Companies Registry, as such the effective date for capital reduction is yet to be determined. As a result, the effective date for the Capital Reorganisation, change in board lot size and increase in the authorised capital is also yet to be determined.

Disposal of 100% Equity Interest of Plenty One Limited ("Plenty One")

On 9 December 2011, Shine Gain Holdings Limited, direct wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser and in relation to the disposal of 100% equity interest of Plenty One at the consideration of HK$6,500,000. For details and the meanings of the capitalised terms used in this section please refer to the announcement of the Company dated 9 December 2011.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group had cash and cash equivalents of approximately HK$4,018,000 as at 31 March 2012 (2011: HK$941,000) and maintain a sturdy financial situation with current assets plus financial investments and deposits totaling approximately HK$97,135,000 for the year ended 31 March 2012 (2011: HK$137,407,000). The Group had Nil of other borrowing at subsidiary level (2011: HK$4,169,000 equivalent to RMB3,500,000), and borrowing of HK$8,800,000 (2011: HK$Nil) at the Company Level.

Investment

As at 31 March 2012, the Group did not have any financial investment for both 2012 and 2011. 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 2012, the Group's turnover was approximately HK$118,292,000 which was comprised of revenue from management service fee income as compared to approximately HK$109,008,000 for the year ended 31 March 2011. The gross profit for the group was approximately HK$74,486,000 (2011: HK$46,133,000). The Group generated a net loss attributable to owners of the Company of approximately HK$125,487,000 for the year ended 31 March 2012, compared to a net loss attributable to owners of the Company of approximately HK$316,804,000 for the year ended 31 March 2011. The loss was majorly raised from impairment loss on intangible assets with an amount of approximately HK$175,799,000 (2011: approximately HK$271,168,000). Cost of sale incurred by the Group for the year ended 31 March 2012 amounted to approximately HK$43,806,000 (2011: approximately HK$62,875,000), which is the amortisation of an intangible asset. Administrative expenses for the year ended 31 March 2012 was approximately HK$23,179,000 (2011: approximately HK$9,936,000). This included rental expenses of approximately HK$1,857,000 (2011: approximately HK$1,221,000) and staff cost of approximately HK$4,555,000 (2011: approximately HK$3,464,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting year.

EXPOSURE TO FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group's business transactions are mainly denominated in Hong Kong dollars and Renminbi. Most of the interest bearing bank borrowings of the Group are on floating rate basis.

The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2012, the Group had an aggregate of 9 employees (2011: 15). The employee's remuneration package includes salary, bonus and share options. Pursuant to the Group's remuneration policy, employees are rewarded on the basis of merit and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees located. The Group has not granted any share option to the employees under its existing share option schemes during the year ended 31 March 2012 (2011: Nil).

DIVIDEND

The Directors do not recommend the payment of a final dividend for year ended 31 March 2012 (2011: 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$2,708,000 (2011: HK$2,690,000) 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 2012 (2011: Nil).

CAPITAL COMMITMENTS

As at 31 March 2012, the Group has no capital commitment (2011: Nil).

EXECUTIVE DIRECTORS

Mr. Yau Yan Ming Raymond, aged 44, has over 16 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), Chanceton Financial Group Limited (stock code: 8020), and Tack Fiori International Group Limited (stock code: 928), and Chief Executive Officer of Capital VC Limited (stock code: 2324), all of which are listed on the Stock Exchange of Hong Kong. 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. Wong Ka Chun Carson, aged 34, 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 currently an independent non-executive director of Birmingham International Holdings Limited (stock code: 2309).

Mr. Zha Jian Ping, aged 41, graduated from the Shanghai University of Finance and Economics majoring in accounting (Bachelor Degree in Economics), the Chinese Academy of Social Sciences as a postgraduate and the University of Wisconsin in the United States with a Master degree in Business Administration. He is a senior accountant in the People's Republic of China (the "**PRC**").

Mr. Zha worked in various large enterprise groups such as Nam Kwong (Group) Company Limited in Macau, Jinbei Vehicle Manufacturing Co., Ltd (a listed company in the PRC) and Brilliance China Automotive Holdings Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 1114) and in the United States). For years, he acted as various senior positions such as director, vice president and chief financial officer and led several departments including finance, commerce, information and logistics departments of the corporates.

Mr. Zha also participated as a key member in the joint venture negotiations of BMW Brilliance Automotive Company. He is currently the Vice President of Shenzhen Careall Investment Holdings Group Co., Ltd. Mr. Zha has extensive experience in financial management, corporate operation and capital operation.

Ms. Qi Yue, aged 48, graduated from the Henan University of Finance and Economics majoring in accounting (Bachelor Degree in Economics). She has China accountant qualification. Ms. Qi worked in banking and finance for a long period. She was a member of internal control expert advisory team of auditing department and a research leader of financial management audit institution at the head office of China Construction Bank. She has rich professional experience in risk management and audit of financial products area.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Tze Chung, aged 40, 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.

Mr. Wu Ka Ho Stanley, aged 46, holds a master degree in Business Administration in International Management from the University of London and a bachelor degree in Accounting from the University of Hull, the United Kingdom. He is a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Wu is also a member of Hong Kong Institute of Certified Public Accountants and a certified tax advisor in Hong Kong. He served as auditor for a sizable international accounting firm and held senior management positions in several private enterprises. Mr. Wu has extensive work experience in finance and auditing. He is currently a member of the Mainland Business Interest Group under the Association of Chartered Certified Accountants.

Mr. Yue Laiqun, aged 53, holds a doctoral degree in Science from the China University of Geosciences and a master degree in Science from Chinese Academy of Geological Sciences. He is a professor-level senior engineer and a qualified researcher for mining economics. Mr. Yue was the chief engineer of Fujian No. 4 Geological Party of Ministry of Geology and Mineral Resources of the People's Republic of China, an assistant researcher of the Department of Geology and Mineral Resources of the People's Republic of China of Fujian Bureau of Geology and Mineral Resources under the Ministry of Geology and Mineral Resources and deputy director of Science and Technology Division of Fujian Provincial Bureau of Geology and Mineral Exploration of the People's Republic of China. He currently acts as the deputy chief engineer of Oil and Gas Resources Strategic Research Center of the Ministry of Land and Resources of the People's Republic of China. Mr. Yue has extensive experience in exploration of geological and mineral resources and strategic planning for oil and gas resources. He has published several papers on geological exploration, oil and gas resources economics and strategic research on energy and resources.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is principally engaged in provision of management services, investment in financial and investment products.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 March 2012 are set out in note 22 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2012 are set out in the consolidated statement of comprehensive income on page 25 of the annual report.

The Directors do not recommend the payment of any dividend in respect of the year (2011: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2012, the aggregate amount of turnover attribute to the Group's five largest customers was 100% (2011: 100%) of the total value of the Group's turnover.

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 18 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 34 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated 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 consolidated financial statements.

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 Shares during the year ended 31 March 2012.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 88 of the annual report.

DIRECTORS AND DIRECTORS' SERVICE CONTRACT

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. Zha Jian Ping ("Mr. Zha") (Appointed on 26 August 2011)
Mr. Wong Ka Chun Carson ("Mr. Wong")
Ms. Qi Yue ("Ms. Qi") (Appointed on 26 August 2011)
Mr. Li Wen Jun ("Mr. Li") (Resigned on 19 September 2011)
Mr. Yang Bin ("Mr. Yang") (Retired on 16 September 2011)
Mr. Chan Wai Keung ("Mr. Chan") (Resigned on 26 August 2011)

Independent Non-executive Directors:

Mr. Lam Tze Chung ("Mr. Lam")
Mr. Wu Ka Ho Stanley ("Mr. Wu") (Appointed on 22 November 2011)
Mr. Yue Laiqun ("Mr. Yue") (Appointed on 22 November 2011)
Mr. Wu Tak Lung ("Mr. TL Wu") (Resigned on 22 November 2011)
Mr. Chang Kin Man ("Mr. Chang") (Resigned on 19 September 2011)

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

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

None of the Directors being proposed for re-election at the forthcoming AGM 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' INTERESTS IN THE SECURITIES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 March 2012, the interests or short positions of the Directors or 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 (the "SFO"), Chapter 571 under the Laws of Hong Kong), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, 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 were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in the shares of associated corporation

No long positions of the Directors in the shares of the associated corporation of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 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 and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in debentures

No long positions of Directors in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Short positions in the Shares

No short positions of Directors in the Shares and the shares 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 to 5.67 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 and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Short positions in debentures

No short positions of Directors in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Save as disclosed above, at 31 March 2012, none of the Directors had any interests in any shares, underlying shares and debentures of the Company and 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 to 5.67 of the GEM Listing Rules.

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

As at 31 March 2012, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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 *(Note 2)*
Bonus Raider Investments Limited ("**Bonus Raider**")	Beneficial owner	2,406,117,500	12.61%
China Water Industry Group Limited ("**China Water**")	Through a controlled corporation	2,406,117,500 *(Note 1)*	12.61%

Notes:

1. These Shares are registered in the name of Bonus Raider, a wholly-owned subsidiary of China Water. By virtue of the SFO, China Water was deemed to be interested in the Shares held by Bonus Raider.

2. The percentage is calculated based on 19,081,275,000 issued Shares as at 31 March 2012.

Save as disclosed above, as at 31 March 2012, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which were interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or any persons (not being a Director) have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions in Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The old Share Option Scheme of the Company adopted in 2002 was terminated and the Company has adopted the new share option scheme (the "**Scheme**") at the extraordinary general meeting of the Company held on 12 December 2011 (the "**EGM**"). Pursuant to the Scheme, certain selected classes of participants may be granted options to subscribe for the Company's shares.

The principal terms of the Scheme are summarised in the paragraph headed "Summary of the Principal Terms of the New Share Option Scheme" in Appendix I to the circular of the Company dated 17 November 2011.

During the year under review, no share option was granted, exercised or lapsed under the old Share Option Scheme and the Scheme.

Detailed disclosures relating to the Company's share option schemes are set out in note 36 to the consolidated 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, the substantial shareholders of the Company nor their respective associates had an interest in any business that competed with the Group or might compete with the business of the Group.

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 17 to 22 of the annual 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 36 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of the annual report, the Company has maintained the prescribed public float under the GEM Listing Rules.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 41 to the consolidated financial statements.

AUDITORS

Messrs. SHINEWING (HK) CPA Limited acted as auditors of the Company for the year ended 31 March 2008 to 31 March 2011. Subsequent to the resignation of Messrs. SHINEWING (HK) CPA Limited, Messrs HLM & Co. was appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. HLM & Co. as auditors of the Company.

By Order of the Board
Yau Yan Ming Raymond
Chairman

Hong Kong
25 June 2012

The Company is firmly committed to maintaining and ensuring a high level of corporate governance standards and will review and improve the corporate governance practices and standards constantly. Set out below are those principles of corporate governance as adopted by the Company during the reporting year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules except for the deviation below:

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.

THE BOARD

Composition

The Board currently comprises seven Directors in total, with four 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 *(the Chairman)*
Mr. Zha Jian Ping (Appointed on 26 August 2011) *(the Chief Executive Officer)*
Mr. Wong Ka Chun Carson
Ms. Qi Yue (Appointed on 26 August 2011)

Independent non-executive Directors

Mr. Lam Tze Chung
Mr. Wu Ka Ho Stanley (Appointed on 22 November 2011)
Mr. Yue Laiqun (Appointed on 22 November 2011)

The Board currently has three independent non-executive Directors, namely Mr. Lam Tze Chung, Mr. Wu Ka Ho Stanley and Mr. Yue Laiqun. All of them hold appropriate professional and accounting qualifications required 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.

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.

Chairman and Chief Executive Officer (the "CEO")

The posts of Chairman and CEO are distinct and separate, with a clear division of their responsibilities. Mr. Yau Yan Ming Raymond is the Chairman whose role is to provide the Group with strategic direction in consultation with the Board, whereas the CEO, with the support of the executive Directors, is responsible for the strategic planning of its various business units, and day-to-day management of its operations. Mr. Zha Jian Ping, is the CEO responsible for formulating the Group's strategies, and he leads its management and business unit heads in achieving the goals set by the Board, with a focus on enhancing long-term value of the Company's shareholders.

Meetings

The Board met regularly throughout the financial year ended 31 March 2012 to discuss the overall strategy as well as the operation and financial performance of the Group. During the year, the Board held fourteen meetings for the discussion and approval of important matters such as the approval of quarterly results, interim results and annual results, dividends, the Group's businesses and investments, etc. The attendance record of each Director during the year at Board meetings is as follow:

	Attendance/Number of Meetings			
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Director				
Mr. Yau Yan Ming Raymond	14/14	N/A	2/2	N/A
Mr. Zha Jian Ping (Appointed on 26 August 2011)	13/14	N/A	N/A	N/A
Mr. Wong Ka Chun Carson	14/14	N/A	N/A	N/A
Ms. Qi Yue (Appointed on 26 August 2011)	12/14	N/A	N/A	N/A
Independent Non-executive Director				
Mr. Lam Tze Chung	14/14	4/4	2/2	N/A
Mr. Wu Ka Ho Stanley (Appointed on 22 November 2011)	1/14	1/4	1/2	N/A
Mr. Yue Laiqun (Appointed on 22 November 2011)	1/14	1/4	1/2	N/A

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 judgement 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. Lam Tze Chung as the chairman of the Audit Committee, Mr. Wu Ka Ho Stanley and Mr. Yue Laiqun. All Audit 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 consolidated 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 2012 have been reviewed by the Audit Committee.

Remuneration Committee

The Company has established an remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the GEM Listing Rules. The Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Wu Ka Ho Stanley, Mr. Lam Tze Chung and Mr. Yue Laiqun and one executive Director, namely Mr. Yau Yan Ming Raymond. The Remuneration Committee is chaired by Mr. Wu Ka Ho Stanley.

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 on the establishment of a formal and transparent procedure for developing remuneration policy.

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code. The role of the Remuneration Committee is to make recommendations to the Board on the remuneration packages of individual executive Director and senior management of the Company, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment and for the Board's final determination.

Nomination Committee

A nomination committee of the Board (the "Nomination Committee") has been established with specific written terms of reference which deal clearly with its authorities and duties. The Nomination Committee currently consists of three independent non-executive Directors, namely, Mr. Yue Laiqun, Mr. Lam Tze Chung and Mr. Wu Ka Ho Stanley, and one executive Director, namely Mr. Zha Jian Ping. The Nomination Committee is chaired by Mr. Yue Laiqun. The principal duties of the Nomination Committee include, among other things:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and chief executive of the Company.

As at the date of this annual report, one meeting was held by the Nomination Committee.

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 2012, 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 CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' 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 2012.

The statement of the external auditor of the Company about the reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditors' 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 2012 amounted to HK$350,000. 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 2012 for fees totaling HK$11,000.

SHAREHOLDERS' RIGHTS

To safeguard the shareholders' interests and rights, a separate resolution is proposed for each substantial issue at shareholders' meetings, including the election of individual directors. All resolutions put forward at shareholders' meetings are voted on by poll pursuant to the Listing Rules and poll results are posted on the websites of the Company and of the Stock Exchange after each shareholders' meeting. Detailed procedures for conducting a poll are explained during the proceedings of meetings.

Shareholders of the Company may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address at Room 2306B-07, 23/F., West Tower Shun Tak Centre 168-200 Connaught Road, Central, Hong Kong.

The procedure for the shareholders of the Company to propose a person for election as a Director can be found on the Company's website (http://www.imerchantsltd.com/corp-govern.html).

INVESTORS RELATIONS

The Company adheres to high standards with respect to the disclosure all necessary information to the shareholders in compliance with GEM Listing Rules. The Company strengthens its communications with shareholders through various channels including publication of interim and annual reports, press release and announcements of the latest development of the Company in its corporate website in a timely manner.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for the adequacy and effectiveness of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the management of the Company (collectively "internal controls").

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard the interests of the Company's shareholders and the Group's assets, and to manage risks. The Board also acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has appointed an independent consultant to review and give recommendation on the system of internal control of the Group and reviewed the internal control report submitted by the independent consultant. The review should cover all material controls, including financial, operational and compliance controls and risk management functions. In the view of the Board, the system of internal control of the Group is sufficient to safeguard the interests of the Group. The duties of the Audit Committee also include reviewing and supervising the internal control procedures of the Group.

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.

恒健會計師行
HLM & Co.
Certified Public Accountants

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

We have audited the consolidated financial statements of iMerchants Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 87, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

BASIS FOR QUALIFIED OPINION

Scope limitation – Prior year's audit scope limitation affecting opening balances

The consolidated financial statements of the Group for the year ended 31 March 2011 were audited by another firm of auditors whose report dated 5 August 2011 was qualified in respect of limitation of audit scope of the loan receivables with carrying amount of nil stated net of an impairment of HK$18,800,000 which was made in prior years.

We were not able to obtain sufficient reliable evidence to enable us to assess the accuracy of the impairment loss made on the respective loan receivables for the year ended 31 March 2011 and whether the loan receivables were fairly stated as at 31 March 2011. Any adjustments found to be necessary in respect of the above as at 31 March 2011 would have had a consequential impact on the opening balances of net assets of the Group as at 1 April 2011, its loss for the year ended 31 March 2012, and the related disclosures in the consolidated financial statements.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of any adjustments to the loss of the Group for the year ended 31 March 2012, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of the Group and the Company's affairs as at 31 March 2012 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 section 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work relating to matter described in the scope limitation paragraph above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 6 to the consolidated financial statements. As at 31 March 2012, Shenzhen Careall Capital Investment Co., Ltd. ("Shenzhen Careall") is the Group's sole customer who accounted for approximately HK$118,292,000 or 100% of the total turnover for the year ended 31 March 2012. The Group provided management services to Shenzhen Careall which is principally engaged in venture capital investment. The Group's exposures to operational risk and credit risk are primarily attributable to the Group dependency on this sole customer.

HLM & Co.
Certified Public Accountants
Hong Kong
25 June 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Continuing operations			
Turnover	7	**118,292**	109,008
Cost of sale		**(43,806)**	(62,875)
Gross profit		**74,486**	46,133
Other income	9	**9,111**	23
Gain on redemption of convertible bonds	10	**20,480**	–
Loss on disposal of subsidiaries	31	**(9)**	–
Net gain on disposal of available-for-sale investments		**–**	3,220
Impairment loss on goodwill	21	**(13)**	(16,952)
Impairment loss on investment deposits	23(c)	**–**	(5,000)
Impairment loss on loan receivables	24	**(1,585)**	(18,800)
Impairment loss on intangible asset	20	**(175,799)**	(271,168)
Administrative expenses		**(23,179)**	(9,936)
Finance costs	11	**(7,073)**	(13,666)
Loss before taxation		**(103,581)**	(286,146)
Income tax expense	12	**(13,954)**	(28,397)
Loss for the year from continuing operations	13	**(117,535)**	(314,543)
Discontinued operations			
Loss for the year from discontinued operations	15	**(8,002)**	(2,759)
Loss for the year		**(125,537)**	(317,302)
Other comprehensive income (expense) for the year, net of income tax			
Exchange difference arising on translation		**18,394**	40,324
Release of investment revaluation reserve upon disposal of available-for-sale investments		**–**	(4,452)
Total comprehensive expense for the year		**(107,143)**	(281,430)
Loss attributable to:			
Owners of the Company		**(125,487)**	(316,804)
Non-controlling interests		**(50)**	(498)
		(125,537)	(317,302)
Total comprehensive expense attributable to:			
Owners of the Company		**(107,093)**	(280,946)
Non-controlling interests		**(50)**	(484)
		(107,143)	(281,430)
Loss per share (HK cents)	17		
From continuing and discontinued operations			
Basic		**(0.37)**	(5.57)
Diluted		**(0.37)**	(5.57)
From continuing operations			
Basic		**(0.35)**	(5.53)
Diluted		**(0.35)**	(5.53)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**988**	6,170
Prepaid lease payments	19	**–**	2,627
Intangible asset	20	**402,650**	606,089
Goodwill	21	**–**	–
		403,638	614,886
Current assets			
Trade and other receivables	23	**89,434**	135,703
Loan receivables	24	**3,683**	700
Prepaid lease payments	19	**–**	63
Cash held at non-bank financial institutions	25	**–**	598
Bank balances and cash	25	**4,018**	343
		97,135	137,407
Assets classified as held for sale	26	**3,100**	–
		100,235	137,407
Current liabilities			
Trade and other payables	27	**8,135**	9,104
Borrowings	28	**–**	4,169
Amount due to a non-controlling shareholder of a subsidiary	29	**–**	2,645
Income tax payables		**31,433**	28,777
		39,568	44,695
Liabilities directly associated with assets classified as held for sale	26	**10,439**	–
		50,007	44,695
Net current assets		**50,228**	92,712
Total assets less current liabilities		**453,866**	707,598
Non-current liabilities			
Borrowings	28	**8,800**	–
Convertible bonds	34	**6,084**	101,819
		14,884	101,819
Total assets less liabilities		**438,982**	605,779
Capital and reserves			
Share capital	30	**763,251**	477,403
Non-redeemable convertible preference shares	33	**–**	285,848
Reserves		**(324,264)**	(157,499)
Equity attributable to owners of the Company		**438,987**	605,752
Non-controlling interests		**(5)**	27
Total equity		**438,982**	605,779

The consolidated financial statements on pages 25 to 87 were approved and authorised for issue by the Board of Directors on 25 June 2012 and are signed on its behalf by:

Director *Director*

STATEMENT OF FINANCIAL POSITION

At 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current asset			
Investments in subsidiaries	22	**573,406**	705,354
Current assets			
Other receivables		**8**	–
Amounts due from subsidiaries	22	**4,497**	3,563
Bank balances	25	**147**	64
		4,652	3,627
Current liability			
Other payables	27	**522**	600
Net current assets		**4,130**	3,027
Total assets less current liabilities		**577,536**	708,381
Non-current liabilities			
Amounts due to subsidiaries	22	**132,001**	2,838
Convertible bonds	34	**6,084**	101,819
Borrowings	28	**8,800**	–
		146,885	104,657
Total assets less liabilities		**430,651**	603,724
Capital and reserves			
Share capital	30	**763,251**	477,403
Non-redeemable convertible preference shares	33	**–**	285,848
Reserves	35	**(332,600)**	(159,527)
Total equity		**430,651**	603,724

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

	Equity attributable to owners of the Company												
	Share capital HK$'000 *(Note 30)*	Non-redeemable convertible preference share HK$'000 *(Note 33, 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$'000 *(Note a and c)*	Translation reserve HK$'000	Equity component of convertible bonds HK$'000 *(Note 34)*	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
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
At 1 April 2011	**477,403**	**285,848**	**40,095**	**3,297**	**45,918**	**–**	**50,587**	**40,258**	**63,034**	**(400,688)**	**605,752**	**27**	**605,779**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,394**	**–**	**(125,487)**	**(107,093)**	**(50)**	**(107,143)**
Acquisition of additional interest in a subsidiary *(Note 32)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13**	**13**
Non-controlling interests arising from incorporation of a new subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Issuance of shares upon conversion of non-redeemable convertible preference shares	**285,848**	**(285,848)**	**(10,005)**	**–**	**–**	**–**	**10,005**	**–**	**–**	**–**	**–**	**–**	**–**
Redemption of convertible bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(59,672)**	**–**	**(59,672)**	**–**	**(59,672)**
At 31 March 2012	**763,251**	**–**	**30,090**	**3,297**	**45,918**	**–**	**60,592**	**58,652**	**3,362**	**(526,175)**	**438,987**	**(5)**	**438,982**

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 a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary. 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Loss for the year	**(125,537)**	(317,302)
Adjustments for:		
Income tax expense	**13,954**	28,496
Finance costs	**7,520**	14,093
Exchange gain	**(7,492)**	–
Amortisation of intangible asset	**43,806**	62,875
Depreciation of property, plant and equipment	**510**	460
Amortisation of prepaid lease payments	**65**	62
Allowance for inventories	**–**	252
Impairment loss on property, plant and equipment	**5,654**	564
Impairment loss on trade and other receivables	**1,457**	716
Impairment loss on investment deposits	**–**	5,000
Impairment loss on goodwill	**13**	16,952
Impairment loss on loan receivables	**–**	18,800
Impairment loss on intangible asset	**175,799**	271,168
Impairment loss on loan interest receivables	**1,585**	–
Interest income	**(1,611)**	(5)
Dividends from listed available-for-sales investments	**–**	(22)
Net gain on disposal of available-for-sale investments	**–**	(3,220)
Gain on redemption of convertible bonds	**(20,480)**	–
Loss on disposal of subsidiaries	**(9)**	–
Operating cash flows before movements in working capital	**95,234**	98,889
Dividends received from listed available-for-sales investments	**–**	22
Decrease in inventories	**–**	547
Decrease (increase) in trade and other receivables	**34,218**	(115,711)
Decrease in available-for-sale investments	**–**	5,080
Decrease in cash held at non-bank financial institutions	**598**	25,113
Increase in trade and other payables	**1,797**	5,115
Cash generated from operating activities	**131,847**	19,055
Income tax paid	**(10,918)**	(83)
Net cash generated from operating activities	**120,929**	18,972
Investing activities		
Refund of (payment for) deposits for potential investment projects	**18,095**	(23,095)
Increase in loan receivables	**(2,983)**	(17,000)
Purchases of property, plant and equipment	**(1,251)**	(26)
Interest received	**26**	5
Net cash generated from (used in) investing activities	**13,887**	(40,116)
Financing activities		
Advance from a non-controlling shareholder of a subsidiary	**–**	103
Interest paid	**(274)**	(427)
Increase in funding from non-controlling interest	**5**	–
Redemption on convertible bonds	**(142,000)**	–
Loans from non-financial institutions	**11,000**	–
Repayments to non-financial institutions	**(2,200)**	–
Net cash used in financing activities	**(133,469)**	(324)
Net increase (decrease) in cash and cash equivalents	**1,347**	(21,468)
Cash and cash equivalents at beginning of the year	**343**	21,925
Effect of foreign exchange rate changes	**2,328**	(114)
Cash and cash equivalents at the end of the year	**4,018**	343
Analysis of the balances of cash and cash equivalents:		
Represented by bank balances and cash	**4,018**	343

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, which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22.

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 (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning on 1 April 2011.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HK(IFRIC) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

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

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

New and revised HKFRSs in issue but not yet effective

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle[4]
Amendments to HKFRS 1	Severe hyperinflation and removal of fixed dates for first-time adopters[1]
Amendments to HKFRS 1	Government loans[4]
Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[6]
HKFRS 9	Financial instruments[6]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosures of interests in other entities[4]
HKFRS 13	Fair value measurement[4]
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (as revised in 2011)	Employee benefits[4]
HKAS 27 (as revised in 2011)	Separate financial statements[4]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[5]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

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

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

– 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 amoritsed 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 period. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting period. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recoginsed in profit or loss.

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures *(continued)*

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013 and the application of these five standards may have no significant impact on the results and financial position of the Group. However, the application of HKFRS 12 may result in more extensive disclosures in the consolidated financial statements.

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013 and may have no significant impact on the results.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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 position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value 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 consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the 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.

Business combinations

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

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

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

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

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Discontinued operations

A discontinued operation is a component of the Group, which comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Group, and has been disposed of, or is classified as held for sale, and either (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view of resale.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 of 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 a default or delinquency in interest or 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Convertible bonds containing liability and equity components *(continued)*

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.

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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Bank balances and cash in the consolidated 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the consolidated 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 judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

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 2012, the carrying amounts of property, plant and equipment were approximately HK$1,380,000 (2011: HK$6,170,000) (net of accumulated impairment loss of approximately HK$6,218,000 (2011: HK$564,000)).

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 2012, the carrying amount of trade receivables was approximately HK$88,375,000 (2011: HK$115,417,000) (net of accumulated impairment loss of approximately HK$2,197,000 (2011: HK$1,437,000)).

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 2012, the carrying amounts of other receivables, investment deposits and loan receivables are approximately HK$24,000 (2011: HK$1,140,000), HK$Nil (2011: 18,095,000) and HK$3,683,000 (2011: HK$700,000) respectively (net of accumulated impairment loss of other receivables of approximately HK$734,000 (2011: HK$18,356,000), HK$5,000,000 (2011: HK$5,000,000) and HK$20,385,000 (2011: HK$18,800,000) respectively).

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 2012, the carrying amount of intangible asset was approximately HK$402,650,000 (2011: HK$606,089,000) (net of accumulated impairment loss of approximately HK$446,967,000 (2011: HK$271,168,000)).

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.

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 judgement 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 2012, the carrying amount of investments in subsidiaries and amount due from subsidiaries were approximately HK$573,406,000 and HK$4,497,000 respectively (2011: HK$705,354,000 and HK$3,563,000) (net of accumulated impairment loss of investments in subsidiaries approximately HK$384,161,000 (2011: HK$252,221,000) and accumulated impairment loss of amounts due from subsidiaries approximately HK$187,726,000 (2011: HK$193,276,000)).

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 borrowings and convertible bonds disclosed in notes 28 and 34, 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	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**96,100**	135,352
Financial liabilities		
At amortised cost	**33,066**	117,737

	The Company	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**147**	3,627
Financial liabilities		
At amortised cost	**150,244**	105,257

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, trade and other payables, borrowings, 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.

Foreign currency risk

The Group's foreign currency assets, liabilities and transactions are principally denominated in Renminbi ("RMB"). These currencies are not the functional currencies of the Group entities to which these balances relate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**93,794**	116,152	**14,374**	12,670

The Group currently does not have a foreign currency hedging policy. However, the management will closely monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Foreign currency risk *(continued)*

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase or decrease in HKD against RMB. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in post-tax loss with a 5% weakening of HKD (2011: 5%) against RMB. For a 5% (2011: 5%) strengthening of HKD against RMB, there would be an equal and opposite impact on the post-tax loss, and the balances below would be negative.

	2012	2011
	HK$'000	HK$'000
Loss for the year	**3,971**	5,174

The Group's sensitivity to RMB has decreased during the current year mainly due to the decrease in RMB denominated receivables as at 31 March 2012.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

Interest rate risk

The Group was exposed to fair value interest rate risk in relation to fixed-rate loan receivables and borrowings. Details of the loan receivables and borrowings are disclosed in notes 24 and 28 and 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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

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 its trading of ceramic sewage materials segment had been suspended during the year. 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 100% (2011: 99%) of the total revenue and trade receivables, being fees income from providing management services, was due from the Group's sole customer in the PRC, Shenzhen Careall Capital Investment Co., Ltd. 深圳市康沃資本創業投資有限公司("Shenzhen Careall").

The Group's concentration of credit risk by geographical locations is in the PRC, which accounted for 100% (2011: 100%) of total trade receivables as at 31 March 2012.

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

Operational risk

The Group's exposure to operational risk is primarily attributable to heavy reliance on Shenzhen Careall, the sole customer of the Group in the PRC, for the provision of management services.

The Group's total services provided to Shenzhen Careall amounted to approximately HK$118,292,000 (2011: approximately HK$108,986,000) which accounted for approximately 100% (2011: 99%) of the Group's total turnover for the year ended 31 March 2012. The directors are closely monitoring the performance and financial position of Shenzhen Careall and are planning to expand its management services to reduce the concentration of the operational risk.

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.

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

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
2012					
Non-derivative financial liabilities					
Trade and other payables	**8,135**	**–**	**–**	**8,135**	**8,135**
Borrowings	**–**	**8,800**	**–**	**8,800**	**8,800**
Convertible bonds	**–**	**–**	**8,000**	**8,000**	**6,084**
	8,135	**8,800**	**8,000**	**24,935**	**23,019**
2011					
Non-derivative financial liabilities					
Trade and other payables	9,104	–	–	9,104	9,104
Borrowings	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

6. FINANCIAL INSTRUMENTS *(continued)*

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 consolidated financial statements approximate to their fair values due to their immediate or short-term maturities.

7. TURNOVER

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

	2012	2011
	HK$'000	HK$'000
Management service fee income	**118,292**	108,986
Dividends from listed available-for-sale investments	**–**	22
	118,292	109,008

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.

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

Segment of the manufacturing and trading of ceramic sewage materials was discontinued in the current year. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in note 15.

8. SEGMENT INFORMATION *(continued)*

Segment Revenue and Results

The followings is an analysis of the Group's revenue and results from continuing operations by reportable segment.

For the year ended 31 March

	Provision of management services		Investment in financial and investment products		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
SEGMENT REVENUE:						
External sales	**118,292**	108,986	**–**	–	**118,292**	108,986
Investment income	**–**	–	**–**	22	**–**	22
	118,292	108,986	**–**	22	**118,292**	109,008
SEGMENT RESULTS	**(102,499)**	(225,057)	**–**	3,242	**(102,499)**	(221,815)
Unallocated corporate income					**22,099**	23
Unallocated corporate expenses					**(16,108)**	(50,688)
Finance costs					**(7,073)**	(13,666)
Loss before taxation (continuing operations)					**(103,581)**	(286,146)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2011: Nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from 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		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS						
Segment assets	**491,025**	720,811	**–**	598	**491,025**	721,409
Assets relating to ceramic sewage materials operation (now discontinued)					**3,100**	10,236
Unallocated segment assets					**9,748**	20,648
Consolidated assets					**503,873**	752,293
LIABILITIES						
Segment liabilities	**7,054**	5,736	**–**	–	**7,054**	5,736
Liabilities relating to ceramic sewage materials operation (now discontinued)					**10,439**	5,410
Unallocated segment liabilities					**47,398**	135,368
Consolidated liabilities					**64,891**	146,514

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 be allocated into reportable segments.

- all liabilities are allocated to reportable segments, other than borrowings, income tax payables, convertible bonds and certain other payables which are not able to be allocated 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		Total	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
OTHER SEGMENT INFORMATION:						
Amounts included in the measure of segment profit or loss or segment asset:						
Amortisation of intangible asset	**43,806**	62,875	**–**	–	**43,806**	62,875
Net gain on disposal of available-for-sale investments	**–**	–	**–**	(3,220)	**–**	(3,220)
Impairment loss on intangible asset	**175,799**	271,168	**–**	–	**175,799**	271,168
Amounts regularly provided to the chief operation decision maker but not included in measurement of segment profit or loss or segment assets:						
Impairment loss on unallocated investment deposits	**–**	–	**–**	5,000	**–**	5,000
Impairment loss on loan receivables	**–**	–	**1,585**	18,800	**1,585**	18,800
Interest income	**–**	–	**(1,611)**	(3)	**(1,611)**	(3)
Finance costs	**7,073**	13,666	**–**	–	**7,073**	13,666
Income tax expense	**13,954**	28,397	**–**	–	**13,954**	28,397

Geographical information

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

	Revenue from external customer		Non-current assets*	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
The PRC	**118,292**	108,986	**402,650**	606,089
Hong Kong	**–**	–	**988**	55
	118,292	108,986	**403,638**	606,144

* Non-current assets excluding those relating to ceramic sewage materials operation.

Information on major customer

Revenue arising from provision of management services of approximately HK$118,292,000 (2011: approximately HK$108,986,000) which arose from services to the Group's largest customer. No other customers contributed to the Group's revenue for both 2012 and 2011.

9. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Continuing operations		
Interest income	**1,611**	3
Net exchange gain	**7,497**	–
Sundries	**3**	20
	9,111	23

10. GAIN ON REDEMPTION OF CONVERTIBLE BONDS

During the year ended 31 March 2012, the Company had redeemed part of the convertible bonds amounted to HK$142,000,000. The total consideration paid to redeem the convertible bonds is allocated to liability and equity components at the date of redemption. The difference between the consideration allocated to the liability component and its carrying value at the date of redemption is recognised in profit or loss. The amount of consideration allocated to the equity component is recognised in equity.

The redemption results in gain of approximately HK$20,480,000 and a decrease of HK$59,672,000 in the equity component of convertible bonds.

11. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Imputed interest expenses on convertible bonds *(Note 34)*	**7,073**	13,666

12. INCOME TAX EXPENSE (relating to continuing operations)

	2012 HK$'000	2011 HK$'000
PRC Enterprise Income Tax ("EIT")		
– Current	**31,433**	28,397
– Over provision in prior years	**(17,479)**	–
	13,954	28,397

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax had been made as the Group did not generate any assessable profits in Hong Kong for both years.

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:

	2012 HK$'000	2011 HK$'000
Loss before taxation (from continuing operations)	**(103,581)**	(286,146)
Taxation at domestic income tax rate of 25% (2011: 25%)	**(25,895)**	(71,537)
Tax effect of expenses not deductible for tax purpose	**64,680**	96,675
Tax effect of income not taxable for tax purpose	**(7,397)**	(536)
Tax effect of deductible temporary differences not recognised	**(11)**	380
Utilisation of tax losses previously not recognised	**–**	(46)
Tax effect of tax losses not recognised	**56**	–
Effect of difference tax rates of subsidiaries operating in other jurisdictions	**–**	3,461
Over provision in prior years	**(17,479)**	–
Tax expense for the year	**13,954**	28,397

At 31 March 2012, the Group had unused estimated tax losses of approximately HK$122,057,000 (2011: HK$121,833,000) 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.

13. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2012	2011
	HK$'000	HK$'000
Loss for the year from continuing operations has been arrived at after charging (crediting):		
Staff costs (including directors' emoluments)		
Salaries and allowances	**4,485**	3,385
Retirement benefits scheme contributions	**70**	79
	4,555	3,464
Amortistion of intangible asset (included in cost of sale)	**43,806**	62,875
Auditors' remuneration	**350**	550
Depreciation of property, plant and equipment	**318**	42
Operating lease charges in respect of rented premises	**1,857**	1,221
Net exchange gain	**(7,497)**	–

14. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES

(a) The emoluments paid or payable to each of the twelve (2011: eight) directors, were as follows:

For the year ended 31 March 2012

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[1]	–	310	6	316
Mr. Yau Yan Ming Raymond	–	748	12	760
Mr. Yang Bin[2]	–	405	6	411
Mr. Li Wen Jun[3]	–	364	6	370
Mr. Wong Ka Chun Carson	–	476	12	488
Mr. Zha Jian Ping[4]	–	371	–	371
Ms. Qi Yue[4]	–	301	–	301
Independent Non-executive Directors:				
Mr. Wu Tak Lung[5]	92	–	–	92
Mr. Chang Kin Man[3]	56	–	–	56
Mr. Lam Tze Chung	144	–	–	144
Mr. Wu Ka Ho Stanley[6]	52	–	–	52
Mr. Yue Laiqun[6]	52	–	–	52
	396	2,975	42	3,413

14. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(continued)*

(a) 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[1]	–	250	4	254
Mr. Yau Yan Ming Raymond	–	585	12	597
Mr. Yang Bin[2]	–	475	12	487
Mr. Li Wen Jun[3]	–	420	12	432
Mr. Wong Ka Chun Carson	–	390	12	402
Independent Non-executive Directors:				
Mr. Wu Tak Lung[5]	144	–	–	144
Mr. Chang Kin Man[3]	120	–	–	120
Mr. Lam Tze Chung	144	–	–	144
	408	2,120	52	2,580

1 Appointed on 21 October 2010 and resigned on 26 August 2011
2 Retired on 16 September 2011
3 Resigned on 19 September 2011
4 Appointed on 26 August 2011
5 Resigned on 22 November 2011
6 Appointed on 22 November 2011

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.

14. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2011: four) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining one (2011: one) individuals were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and allowances	427	364
Retirement benefits scheme contributions	12	12
	439	376

The emoluments were within the following bands:

	Number of employees	
	2012 HK$'000	2011 HK$'000
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 inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 March 2012 and 2011.

15. DISCONTINUED OPERATIONS

Disposal of ceramic sewage materials manufacturing and trading operations

On 9 December 2011, the board of directors announced that the Group was going to dispose the Group's ceramic sewage materials manufacturing and trading operations at an aggregated consideration of HK$6,500,000. The disposal is consistent with the Group's long-term policy to focus its activities in the provision of management service regarding financial investment and the net proceeds would be able to support the continuous growth of the business of the Group.

15. DISCONTINUED OPERATIONS *(continued)*

Analysis of loss for the year from discontinued operations

The combined results of the discontinued operations (i.e. ceramic sewage materials business) included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

Loss for the year from discontinued operations

	2012 HK$'000	2011 HK$'000
Turnover	**–**	5,640
Cost of sales	**–**	(2,421)
Gross profit	**–**	3,219
Other gains	**–**	2
Distribution and selling expenses	**–**	(3,311)
Administrative expenses	**(7,555)**	(2,142)
Finance cost	**(447)**	(428)
Attributable income tax expenses	**–**	(99)
	(8,002)	(2,759)
Loss attributable to non-controlling interests	**40**	498
Loss for the year from discontinued operations (attributable to owners of the Company)	**(7,962)**	(2,261)
Loss for the year from discontinued operations included the following:		
Depreciation and amortisation	**257**	480
Allowance of inventories	**–**	252
Cost of inventories recognised as expenses	**–**	2,421
Impairment loss on property, plant and equipment	**5,654**	564
Impairment loss on trade receivables	**708**	600
Impairment loss on other receivables	**604**	116
Impairment loss on deposits and prepayments	**145**	–

Cash flows from discontinued operations

	2012 HK$'000	2011 HK$'000
Net cash inflows from operating activities	**219**	242
Net cash outflows from financing activities	**(273)**	(325)
Effect of foreign exchange rate changes	**54**	(56)
Net cash outflows	**–**	(139)

The ceramic sewage materials business classified and accounted for at 31 March 2012 as a disposal group held for sale described in note 26.

16. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

17. LOSS PER SHARE

From continuing and discontinued operations

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

	2012 HK$'000	2011 HK$'000
Loss		
Loss for the purpose of basic loss per share (Loss for the year attributable to owners of the Company)	**(125,487)**	(316,804)
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**33,547,890**	5,690,757
Effect of dilutive potential ordinary shares:		
Convertible bonds	**200,000**	3,750,000
Convertible preference shares	**–**	7,146,195
	33,747,890	16,586,952

The diluted loss per share for the continuing and discontinued operations is same as the basic loss per share for the continuing and discontinued operations as the dilutive potential ordinary shares were anti-dilutive for both years.

From continuing operations

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

Loss figures are calculated as follows:

	2012 HK$'000	2011 HK$'000
Loss for the year attributable to owners of the Company	**(125,487)**	(316,804)
Add: Loss for the year from discontinued operations	**7,962**	2,261
	(117,525)	(314,543)

The denominators used are the same as those detailed above for basic loss per share and diluted loss per share for the continuing operations is same as the basic loss per share for the continuing operations as the dilutive potential ordinary shares were anti-dilutive for both years.

From discontinued operations

Basic loss per share for the discontinued operations is HK0.02 cents per share (2011: HK0.04 cents per share) and diluted loss per share for the discontinued operations is same as the basic loss per share for the discontinued operations as the dilutive potential ordinary shares were anti-dilutive for both years.

18. 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	Leasehold improve-ment HK$'000	Total HK$'000
COST						
At 1 April 2010	6,266	964	195	114	–	7,539
Additions	–	–	26	–	–	26
Exchange realignment	281	42	2	5	–	330
At 31 March 2011 and 1 April 2011	6,547	1,006	223	119	–	7,895
Additions	–	–	212	–	1,039	1,251
Exchange realignment	202	31	2	4	–	239
Elimination on reclassification as held for sales	(6,749)	(1,037)	(55)	(123)	–	(7,964)
At 31 March 2012	–	–	382	–	1,039	1,421
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 April 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 and 1 April 2011	522	1,006	136	61	–	1,725
Depreciation provided for the year	168	–	54	17	271	510
Impairment loss recognised in the year	5,587	–	25	42	–	5,654
Exchange realignment	81	31	1	3	–	116
Elimination on reclassification as held for sales	(6,358)	(1,037)	(54)	(123)	–	(7,572)
At 31 March 2012	–	–	162	–	271	433
NET CARRYING VALUES						
At 31 March 2012	–	–	220	–	768	988
At 31 March 2011	6,025	–	87	58	–	6,170

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

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

As at 31 March 2012, the Company has not obtained the building ownership certificates for buildings with carrying value of approximately HK$392,000 (2011: HK$6,025,000) which had been reclassified as held for sale during the year. 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 2012, the Directors carried out a review on the recoverable amount of certain production facilities. The Group recognised an impairment loss of approximately HK$5,654,000 (2011: HK$564,000) in the consolidated statement of comprehensive income of discontinued operations for the year ended 31 March 2012 as the relevant assets were left idle.

19. PREPAID LEASE PAYMENTS

	Group	
	2012	2011
	HK$'000	HK$'000
The Group's prepaid lease payment comprised:		
Leasehold land in the PRC under medium-term leases	**–**	2,690

	Group	
	2012	2011
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current assets	**–**	63
Non-current assets	**–**	2,627
	–	2,690

As at 31 March 2012, the Group had pledged prepaid lease payments with carrying value of approximately HK$2,708,000 (2011: HK$2,690,000) which had been reclassified as held for sale during the year to secure other loans granted to the Group.

20. INTANGIBLE ASSET

	Exclusive right
	HK$'000
COST	
At 1 April 2010	925,584
Exchange realignment	41,408
At 31 March 2011 and 1 April 2011	966,992
Exchange realignment	29,716
At 31 March 2012	996,708
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 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 and 1 April 2011	360,903
Provided for the year	43,806
Impairment loss recognised in the year	175,799
Exchange realignment	13,550
At 31 March 2012	594,058
CARRYING VALUES	
At 31 March 2012	402,650
At 31 March 2011	606,089

20. INTANGIBLE ASSET *(continued)*

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 owners of the vendor of Supreme Luck International 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 (equivalent 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.

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

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 13 years (2011: 14 years) and based on financial budgets approved by management of the Company covering a 3-year period, and a discount rate of 18.98% (2011: 21.52%). 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 2012, accordingly an impairment loss of approximately HK$175,799,000 (2011: HK$271,168,000) was recognised.

21. GOODWILL

	The Group HK$'000
COST	
At 1 April 2010, 31 March 2011 and 1 April 2011	31,329
Acquisition of additional interest in a subsidiary *(Note 32)*	13
At 31 March 2012	31,342
IMPAIRMENT	
At 1 April 2010	14,377
Impairment loss recognised in the year	16,952
At 31 March 2011 and 1 April 2011	31,329
Impairment loss recognised in the year	13
At 31 March 2012	31,342
CARRYING VALUES	
At 31 March 2012	–
At 31 March 2011	–

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. On 9 December 2011, the board of directors announced that the Group is going to dispose the CGU of manufacturing and trading of ceramic sewage materials.

In the opinion of the directors, the goodwill has already been totally impaired and impairment loss of approximately HK$13,000 (2011: HK$16,952,000) was recognised as at 31 March 2012.

22. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**957,575**	957,575
Less: disposal of subsidiaries	**(8)**	–
Less: impairment loss recognised	**(384,161)**	(252,221)
	573,406	705,354
Amounts due from subsidiaries	**192,223**	196,839
Less: impairment loss recognised	**(193,276)**	(193,276)
Add: reversal of impairment loss	**5,550**	–
	4,497	3,563

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

Amounts due to subsidiaries are unsecured, interest-free and are not repayable within one year.

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

Details of the Company's principal subsidiaries at 31 March 2011 and 31 March 2012 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: Directly 2012	Directly 2011	Indirectly 2012	Indirectly 2011	Principal activities
iMerchants Asia Limited	Incorporated	BVI/Hong Kong	Ordinary shares US$6,001,000	**100%**	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
China North Natural Gas Holdings Limited (formerly known as Top Deluxe Limited)	Incorporated	Hong Kong	Ordinary shares HK$10	**100%**	100%	**–**	–	Inactive
Shine Gain Holdings Limited	Incorporated	BVI/Hong Kong	Ordinary shares US$100	**100%**	100%	**–**	–	Investment holding
Plenty One Limited	Incorporated	BVI/Hong Kong	Ordinary shares US$100	**–**	–	**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	**–**	–	**100%**	80%	Manufacture and trading of ceramic sewage materials
Growwise Holdings Limited	Incorporated	BVI	Ordinary shares US$1	**100%**	100%	**–**	–	Investment holding
Top Connect Holdings Limited	Incorporated	BVI	Ordinary shares US$1	**100%**	100%	**–**	–	Not yet commenced business
Supreme Luck International Limited	Incorporated	BVI/Hong Kong	Ordinary shares US$1	**100%**	100%	**–**	–	Investment holding and provision of management services
Great Knight Limited	Incorporated	BVI	Ordinary shares US$1	**100%**	100%	**–**	–	Not yet commenced business
Shenzhen iMerchants Enterprise Management Consulting Company Limited (深圳菱控企業管理咨詢有限公司)	Incorporated	PRC	RMB1,000,000	**–**	–	**100%**	–	Provision of administrative services
All Profit Limited	Incorporated	Hong Kong	Ordinary shares HK$1	**100%**	–	**–**	–	Provision of administrative services
Billion Top Global Investments Limited	Incorporated	BVI/Hong Kong	Ordinary shares US$100	**–**	–	**100%**	100%	Inactive
China Southwest Natural Gas Holdings Limited	Incorporated	BVI/Hong Kong	Ordinary shares HK$100	**–**	–	**100%**	100%	Inactive
Care Asia Resource International Limited	Incorporated	Hong Kong	Ordinary shares HK$10,000	**–**	–	**51%**	–	Inactive

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

23. TRADE AND OTHER RECEIVABLES

	The Group	
	2012	2011
	HK$'000	HK$'000
Management service fee receivables	**88,375**	114,722
Other trade receivables	**–**	2,132
Less: impairment loss recognised	**–**	(1,437)
	88,375	115,417
Investment deposits	**5,000**	23,095
Less: impairment loss recognised	**(5,000)**	(5,000)
	–	18,095
Other receivables *(Note a)*	**24**	19,496
Less: impairment loss recognised	**–**	(18,356)
	24	1,140
Prepayments and deposits	**1,035**	1,051
	89,434	135,703

Note (a): As at 31 March 2012, the directors of the Company agreed to the settlement with the vendor of Plenty One Limited that the profit guarantee amounting to approximately HK$18,240,000 by transferring to the Group of the remaining 20% equity interest in Ping Xiang San He as compensation.

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

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Within 180 days	**–**	–
181 to 365 days	**79,782**	115,417
Over 365 days	**8,593**	–
	88,375	115,417

23. TRADE AND OTHER RECEIVABLES *(continued)*

(a) At 31 March 2012 and 2011, the aging analysis of trade receivables that were past due but not impaired are as follows:

The Group

	Total HK$'000	**Neither past due nor impaired** HK$'000	**Past due but not impaired >180 days** HK$'000
2012	88,375	–	88,375
2011	115,417	–	115,417

The Group assesses the credit status and imposes credit limits for the sole customer in accordance with the Group's credit limits are closely monitored and subject to periodic reviews. Other than the management service fee receivables amounting to approximately HK$88,375,000 (2011: HK$114,722,000) was pledged by the rights and interests in the registered capital of Shenzhen Careall as disclosed in note 20, the Group does not hold any collateral over these balances.

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

	The Group	
	2012 **HK$'000**	2011 HK$'000
Balance at beginning of the year	**1,437**	787
Recognised during the year	**708**	600
Exchange realignment	**52**	50
Elimination on reclassification as held for sale	**(2,197)**	–
Balance at end of the year	**–**	1,437

Included in impairment loss are individually impaired trade receivables with an aggregate balance of approximately HK$2,197,000 (2011: HK$1,437,000) which had been reclassified as held for sale and were due to long outstanding. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES *(continued)*

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Impairment loss of other receivables		
Balance at beginning of the year	**18,356**	18,240
Recognised during the year	**604**	116
Exchange realignment	**14**	–
Elimination on impairment loss of receivables pursuant to the profit guarantee	**(18,240)**	
Elimination on reclassification as held for sale	**(734)**	–
Balance at end of the year	**–**	18,356
Impairment loss of investment deposits		
Balance at beginning of the year	**5,000**	–
Recognised during the year	**–**	5,000
Balance at end of the year	**5,000**	5,000

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

As at 31 March 2012, impairment loss of other receivables are made individually to the profit guarantee provided by the vendor of Plenty One Limited with an aggregate balance of HK$Nil (2011: HK$18,240,000) which the Company had had difficulties in recovering.

Included in the impairment loss of investment deposits are made 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 had had difficulties in recovering the amount.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

24. LOAN RECEIVABLES

	The Group	
	2012	2011
	HK$'000	HK$'000
Loan receivables	**22,483**	19,500
Loan interest receivables	**1,585**	–
Less: impairment loss recognised	**(20,385)**	(18,800)
	3,683	700

The movements in impairment loss of loan receivables were as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Balance at beginning of the year	**18,800**	–
Recognised during the year	**1,585**	18,800
Balance at end of the year	**20,385**	18,800

Included in loan receivables were amounts advanced to three independent third parties amounting to HK$10,000,000, HK$8,800,000 and HK$3,683,000 (equivalent to RMB3,000,000) respectively and the loan interest receivables amounting to HK$1,585,000 in aggregate. Impairment loss of HK$1,585,000 (2011: HK$18,800,000) was recognised in the consolidated statement of comprehensive income during the year ended 31 March 2012. Part of the loan receivables of HK$18,800,000 are secured by personal guarantees from a major shareholder of the independent third parties and the loans were repayable within one year and carry interest at fixed rate of 0.5% or 1% (2011: 0.5% or 1%) per annum and the remaining part of loan receivables of HK$3,683,000 is unsecured, with interest-bearing at 10% per annum and repayable within one year.

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 CASH

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% (2011: 0% to 2.4%) per annum.

26. ASSETS CLASSIFIED AS HELD FOR SALE

	2012 HK$'000	2011 HK$'000
Assets related to ceramic sewage materials business	3,100	–
Liabilities directly associated with assets classified as held for sale	10,439	–

	2012 HK$'000	2011 HK$'000
Property, plant and equipment	392	–
Prepaid lease payments	2,708	–
Assets classified as held for sale	3,100	–
Trade and other payables	3,024	–
Income tax payable	392	–
Amount due to a non-controlling shareholder of a subsidiary	2,726	–
Borrowings	4,297	–
Liabilities directly associated with asset classified as held for sale	10,439	–
Net liabilities of ceramic sewage materials business	(7,339)	–

27. TRADE AND OTHER PAYABLES

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

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Within 180 days	–	–	–	–
181 to 365 days	–	294	–	–
Over 1 year	–	168	–	–
	–	462	–	–
Other payables	8,135	8,642	522	600
	8,135	9,104	522	600

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.

28. BORROWINGS

	The Group	
	2012	2011
	HK$'000	HK$'000
Borrowings *(Note a)*	**8,800**	4,169
Secured	**–**	4,169
Unsecured	**8,800**	–
	8,800	4,169
Carrying amount repayable *(Note b)*		
Within one year	**–**	4,169
More than one year, but not exceeding two years	**8,800**	–
More than two years, but not more than five years	**–**	–
	8,800	4,169
Less: Amounts shown under current liabilities	**–**	(4,169)
	8,800	–

Notes:

(a): At 31 March 2012, the borrowings of HK$8,800,000 was unsecured, with the carrying interest at 1% per annum.

(b): The amounts due are based on the scheduled repayment dates set out in the loan agreements.

29. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The Group

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

30. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Authorised:		
Balance at 1 April 2010 and 31 March 2011, 1 April 2011 and 31 March 2012 of HK$0.04 each	30,000,000	1,200,000
Issued and fully paid:		
Balance at 1 April 2010 of HK$0.04 each	3,138,886	125,555
Conversion of convertible preference shares *(Note a)*	7,546,194	301,848
Conversion of convertible bonds *(Note b)*	1,250,000	50,000
Balance at 31 March 2011 and 1 April 2011 of HK$0.04 each	11,935,080	477,403
Conversion of convertible preference shares *(Note c)*	7,146,195	285,848
Balance at 31 March 2012 of HK$0.04 each	19,081,275	763,251

Notes:

(a) 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.

(b) 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.

(c) During the year ended 31 March 2012, 7,146,194,600 non-redeemable convertible preference shares were converted into ordinary shares of HK$0.04 each.

31. LOSS ON DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire interests in iMerchants Consulting Limited and iMerchants Services Limited.

The net assets of the subsidiaries at the date of disposal are as follow:

			2012
	iMerchants Consulting Limited HK$'000	**iMerchants Services Limited** HK$'000	**Total** HK$'000
Net assets disposal of:			
Other receivables	17	–	17
Net assets	17	–	17
(Loss) profit on disposal	(17)	8	(9)
Total consideration	–	8	8

32. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 30 June 2011, the Group agreed to the settlement which the vendor of Plenty One Limited by transferring the remaining 20% interest in Ping Xiang San He to the Group as compensation to the inability to fulfill the guaranteed profit. The details of acquisition of additional interest in a Ping Xiang San He are as follows:

	Ping Xiang San He HK$'000
Consideration *(Note a)*	–
Less: Fair value of 20% of identifiable net liabilities acquired	(13)
Goodwill recognised in acquisition of additional interest in a subsidiary	13

Note (a): The consideration was the compensation of the profit guarantee from the vendor. No cash flows effect upon the additional acquisition.

33. NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES

	Number of shares '000	Amount HK$'000
Authorised:		
Balance at 1 April 2010 and 31 March 2011, 1 April 2011 and 31 March 2012 of HK$0.04 each	20,000,000	800,000
Issued and fully paid:		
Balance at 1 April 2010 of HK$0.04 each	14,692,390	587,696
Conversion of non-redeemable convertible preference shares of the Company *(Note 30a)*	(7,546,195)	(301,848)
Balance at 31 March 2011 and 1 April 2011 of HK$0.04 each	7,146,195	285,848
Conversion of non-redeemable convertible preference shares of the Company *(Note 30c)*	(7,146,195)	(285,848)
Balance at 31 March 2012 of HK$0.04 each	–	–

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, Superme Luck International Limited.

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.

33. 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.

34. CONVERTIBLE BONDS

On 23 October 2009, the Company issued zero-coupon 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. 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 2012, the Company had redeemed part of the convertible bonds amounted to HK$142,000,000.

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.

The movement of CB is as follows:

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
At 1 April 2010	121,660	84,045	205,705
Imputed interest charged for the year *(Note 11)*	13,666	–	13,666
Conversion during the year *(Note 30b)*	(33,507)	(21,011)	(54,518)
At 31 March 2011 and 1 April 2011	101,819	63,034	164,853
Imputed interest charged for the year *(Note 11)*	7,073	–	7,073
Redemption during the year	(102,808)	(59,672)	(162,480)
At 31 March 2012	6,084	3,362	9,446

35. 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 2010	46,142	3,297	31,104	40,022	84,045	(65,822)	138,788
Total comprehensive expenses 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 and 1 April 2011	**40,095**	**3,297**	**31,104**	**50,587**	**63,034**	**(347,644)**	**(159,527)**
Total comprehensive expenses for the year	**–**	**–**	**–**	**–**	**–**	**(113,401)**	**(113,401)**
Issuance of shares upon conversion of non-redeemable convertible preference shares	**(10,005)**	**–**	**–**	**10,005**	**–**	**–**	**–**
Redemption of convertible bonds	**–**	**–**	**–**	**–**	**(59,672)**	**–**	**(59,672)**
At 31 March 2012	**30,090**	**3,297**	**31,104**	**60,592**	**3,362**	**(461,045)**	**(332,600)**

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.

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 2012, no reserves available for distribution to shareholders pursuant to the Hong Kong Companies Ordinance (2011: HK$Nil).

36. SHARE OPTION SCHEMES

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.

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.

36. SHARE OPTION SCHEMES *(continued)*

2002 Share Option Scheme *(continued)*

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 was terminated by shareholders at the extraordinary general meeting of the Company held on 12 December 2011.

There has been no option outstanding under 2002 Share Option Scheme as at 31 March 2011 and 2012.

2011 Share Option Scheme

Under the 2011 Share Option Scheme, the board of directors of the Company may grant share options at a consideration of HK$10 for each lot of share option granted to:

(a) employees of the Group; or

(b) directors (including any executive, non-executive and independent non executive Directors (where applicable)) of the Company; or

(c) substantial shareholders of each member of the Company; and (iv) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group (together, the "**Participants**" and each, a "**Participant**").

The purpose of the 2011 Share Option Scheme is to provide the people and the parties working for the interests of the Company with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Company and thereby providing them with an incentive to work better for the interests of the Company.

An option may be exercised in whole or in part in accordance with the terms of the 2011 Share Option Scheme at any time during a period to be notified by the Board to each grantee provided that the period within which the shares may be taken up under the option must not be more than 10 years from the date of offer of the option. The subscription price will not be less than the highest of the following:

(a) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of an option which must be a business day;

(b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive business days immediately preceding the date of offer; and

(c) the nominal value of the share.

36. SHARE OPTION SCHEMES *(continued)*

2011 Share Option Scheme *(continued)*

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme, the 2011 Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue from time to time. No option may be granted under the 2011 Share Option Scheme or any other share option schemes if this will result in the said limit being exceeded.

The Company may seek approval of its shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of shares in respect of which options may be granted under the 2011 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% (the "Renewal Limit") of the issued share capital of the Company at the date of approval to renew such limit. Options previously granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the 2011 Share Option Scheme or exercised options) shall not be counted for the purpose of calculating the Renewal Limit.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the 2011 Share Option Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options must not exceed 1% of the total number of shares in issue (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the approval of the shareholders in general meeting at which such Participant and his associates must abstain from voting.

The 2011 Share Option Scheme will expire on 11 December 2021.

There has been no option outstanding under 2011 Share Option Scheme since its adoption.

37. 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	
	2012	2011
	HK$'000	HK$'000
Within one year	**3,064**	294
In the second to fifth years inclusive	**1,378**	2
	4,442	296

38. RETIREMENT BENEFIT 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$70,000 (2011: HK$79,000). 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.

39. RELATED PARTY DISCLOSURES

The balances with related parties at the end of the reporting period are disclosed elsewhere in the consolidated 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 14 above.

40. 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 part of the deposit paid of approximately HK$447,000 (equivalent to RMB364,000) should be transfer back to the sub-contractors and part of the plant and equipment had been seized by Jiangxi Province Luxi Country People's Court upon the repayment with sub-contractors or further reconciliation agreement made. And the remaining part of the deposit paid of approximately HK$561,000 (equivalent to RMB457,000) are 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 consolidated financial statements of the Group and that an appropriate amount of provision has been made, if any.

(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. The directors of the Company are still considering to institute legal proceedings against the Vendors.

41. EVENT AFTER THE REPORTING PERIOD

The proposed capital reduction (the "Capital Reduction"), change in board lot size and increase in authorised capital

(a) Proposed Capital Reduction

At the extraordinary general meeting of the Company held on 12 December 2011 (the "EGM"), a special resolution was passed to effect the following Capital Reorganisation pursuant to the Companies Ordinance:

(i) the capital reduction under which the authorised share capital of the Company will be reduced (1) from HK$1,200,000,000 divided into 30,000,000,000 shares of HK$0.04 each to HK$120,000,000 divided into 30,000,000,000 reduced shares of HK$0.004 each and (2) from HK$800,000,000 divided into 20,000,000,000 preference Shares of HK$0.04 each to HK$80,000,000 divided into 20,000,000,000 preference reduced Shares of HK$0.004 each and that such reduction be effected by cancelling HK$0.036 of the paid up capital on each issued share of HK$0.04 and reducing the nominal value of each issued or unissued share in the capital of the Company from HK$0.04 per share to HK$0.004 per reduced share; and

(ii) the share consolidation under which every twenty-five reduced Shares of HK$0.004 each will be combined into one adjusted share of HK$0.1 each.

(b) Proposed change in board lot size

The Board proposed to change the board lot size for trading in the shares from 25,000 shares to 10,000 adjusted shares upon the Capital Reorganisation becoming effective.

(c) Proposed increase in authorised capital

The Board proposed to increase (1) the authorised share capital of the Company from HK$120,000,000 divided into 1,200,000,000 adjusted shares to HK$1,000,000,000 divided into 10,000,000,000 adjusted shares by the creation of an additional 8,800,000,000 adjusted shares of par value HK$0.1 each and (2) from HK$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares of par value HK$0.1 each in order to facilitate any future expansion in the share capital of the Company after the completion of the Capital Reorganisation.

On 29 May 2012, the Board of Directors announced that the Capital Reduction was approved by the Court on that date and it will take effect upon completion of registration with the Companies Registry, as such the effective date for capital reduction is yet to be determined. As a result, the effective date for the Capital Reorganisation, change in board lot size and increase in the authorised capital is also yet to be determined.

Redemption on convertible bonds

On 14 June 2012, the Company had redeemed the remaining part of the convertible bonds amounted to HK$8,000,000.

42. COMPARATIVES FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

FINANCIAL SUMMARY

For the year ended 31 March

RESULTS

	Year ended 31 March				
	2008* HK$'000	2009* HK$'000	2010* HK$'000	2011 HK$'000	**2012 HK$'000**
Continuing operations					
Turnover	–	1,637	8,595	109,008	**118,292**
Cost of sales	–	(1,472)	(29,637)	(62,875)	**(43,806)**
Gross profit (loss)	–	165	(21,042)	46,133	**74,486**
Other operating income	20,480	10,374	2,115	3,243	**29,591**
Impairment loss on intangible asset	–	–	–	(271,168)	**(175,799)**
Administrative expenses	(11,654)	(7,988)	(12,177)	(9,936)	**(23,179)**
Other expenses	–	(202)	(55,739)	(40,752)	**(1,607)**
Profit (loss) from operations	8,826	2,349	(86,843)	(272,480)	**(96,508)**
Finance costs	–	(106)	(5,923)	(13,666)	**(7,073)**
Profit (loss) from ordinary activities before tax	8,826	2,243	(92,766)	(286,146)	**(103,581)**
Income tax expense	–	–	(390)	(28,397)	**(13,954)**
Profit (loss) for the year from continuing operations	8,826	2,243	(93,156)	(314,543)	**(117,535)**
Discontinued operations					
Loss before taxation from discontinued operations	–	–	–	(2,660)	**(8,002)**
Income tax expense	–	–	–	(99)	**–**
Loss for the year from discontinued operations	–	–	–	(2,759)	**(8,002)**
	8,826	2,243	(93,156)	(317,302)	**(125,537)**
Attributed to:					
– Owners of the Company	8,826	2,386	(92,503)	(316,804)	**(125,487)**
– Non-controlling interests	–	(143)	(653)	(498)	**(50)**
Net profit (loss) for the year	8,826	2,243	(93,156)	(317,302)	**(125,537)**

ASSETS AND LIABILITIES

	At 31 March				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Total assets	230,891	184,769	986,247	752,293	**503,873**
Total liabilities	(829)	(6,118)	(132,545)	(146,514)	**(64,891)**
Net assets	230,062	178,651	853,702	605,779	**438,982**
Equity attributable to equity holders of the Company	230,062	177,500	853,191	605,752	**438,987**
Non-controlling interests	–	1,151	511	27	**(5)**
	230,062	178,651	853,702	605,779	**438,982**

* The Results for each of the year from 2008 to 2010 have not been re-presented for the discontinued operations in 2012.