LONG SUCCESS
百齡國際

# LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED

*(incorporated in Bermuda with limited liability)*

(Stock Code:8017)

## Annual Report 2012

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

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

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

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

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

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

### Independent Non-Executive Directors

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

## COMPANY SECRETARY

Mr. Yeung Shun Kee

## COMPLIANCE OFFICER

Mr. Wong Kam Leong

## AUTHORISED REPRESENTATIVES

Mr. Wong Kam Leong
Mr. Hu Dongguang

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM 12
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Sheung Wan, Hong Kong

## BERMUDA PRINCIPAL REGISTRAR

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Argyle House, 41A Cedar Avenue
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## HONG KONG BRANCH SHARE REGISTRAR

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## AUDITORS

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Causeway Bay
Hong Kong

## BERMUDA LEGAL ADVISOR

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## HONG KONG LEGAL ADVISOR

Philips Solicitors
3506, Tower 1, Lippo Centre
89 Queensway, Central,
Hong Kong

Angela Ho & Associates
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89 Queensway, Central,
Hong Kong

## FINANCIAL ADVISER

Wallbanck Brothers Securities (Hong Kong) Limited
1312, Tower 1, Lippo Centre
89 Queensway, Central, Hong Kong

## PROFESSIONAL SURVEYOR

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

## PRINCIPAL BANKERS

Hang Seng Bank Limited
Wing Hang Bank Limited

# FINANCIAL HIGHLIGHTS

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

## CONSOLIDATED RESULTS

| | For the year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **241,220** | 288,970 | 159,432 | 12,778 | 25,424 |
| Loss attributable to owners of the Company | **(42,774)** | (26,870) | (45,026) | (37,604) | (43,710) |

## CONSOLIDATED ASSETS AND LIABILITIES

| | As of 31 March | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **971,263** | 866,235 | 483,188 | 114,979 | 130,057 |
| Total liabilities | **(479,245)** | (364,556) | (290,693) | (9,941) | (8,998) |
| Net assets | **492,018** | 501,679 | 192,495 | 105,038 | 121,059 |

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

On behalf of the board of directors (the "Board") of the Company and its subsidiaries (collectively, the "Group"), I hereby present to the shareholders the annual report of the Group for the financial year ended 31 March 2012.

## FINANCIAL PERFORMANCE

The Group's total revenue for the year ended 31 March 2012 was approximately HK$241.22 million, representing a decrease of 16.52% as compared with that for the year ended 31 March 2011 (2011: HK$288.97 million). The Group's revenue mainly came from a paper manufacturing business, which recorded a revenue of HK$238.94 million for the year ended 31 March 2012. During the year under review, the Group recorded a net loss of HK$42.77 million as against a net loss of HK$26.87 million in 2011. The net loss attributable to the shareholders was mainly due to the interest expenses on convertible note, bank borrowings and other loans; the amortization of intangible assets; and the impairment of goodwill in relation to the paper manufacturing business.

## BUSINESS REVIEW

### PAPER MANUFACTURING BUSINESS

The Group acquired 51% equity interest in Jining Gangning Paper Co, Ltd. ("Jining Gangning") in Shandong Province in the People's Republic of China ("PRC") in July 2009 and owns two industrial packaging paper production lines no. 1 and 2. The re-engineering, modification and technical upgrade for production line no.1 was completed in March 2010. Grade A premium packaging paper products was put into production in April 2010.



To strengthen the resisting ability to the rising cost of raw materials, the competitiveness in the market and corporate effectiveness, Jining Gangning suspended the operation and commenced the modification of production line no. 2 in April 2011. Jining Gangning completed the line's modification in the beginning of August 2011 and started to manufacture products such as construction formwork paper, industrial paper and balance paper for engineered wood floor, which enhanced the additional value of the products. The production line no. 2 produced approximately 3200 tons of qualified formwork paper per quarter. The modification of production line no. 2 has successfully improved the quality of the products and the input to output ratio, resulting in cost reduction.

# CHAIRMAN'S STATEMENT

The Group started to engineer paper manufacturing production line no. 3 in the beginning of 2011. This is a tipping paper production line with sophisticated equipment and advanced technology, with which the Group can manufacture high-end and diversified specialty papers. The line was successfully underwent testing in September and underwent trial production from October to December 2011. This new production line has already developed and produced 60 tons of light and thin specialty papers such as white tipping paper, yellow tipping paper, food packing paper, white kraft paper and composite paper. The Group was satisfied with the operation of production line no. 3 and the market development for these specialty papers in the first quarter of 2012.



In line with the state policies on environmental protection, the Group invested in constructing environmental sewage water recycling facilities and achieved zero sewage water discharge to local environment, in respect of which the Group is in the lead in the paper industry in PRC for protecting the local natural environment. Moreover, in order to engineer and install the new production line no. 4 for specialty papers on a timely basis, Jining Gangning has started the preparation work such as building a new 3800-meter long and 8000 KW electricity circuit; cleaning up the site; designing the factory; searching for machineries etc. in the first quarter of 2012.

The paper manufacturing industry in PRC is facing the rising costs of energy, steam, water and different raw materials; the state revoked the preferential tax policy for recycled paper industry effective from January 2011, resulting in the significant increase in the purchasing cost of raw materials of paper per tonne as compared with last year; moreover, production line no. 2 was suspended for modification, resulting in profit was significantly lower than expected.

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

The Group shall continue to insist on its work on environmental protection and maintaining the standard; on the modification for the technology of the manufacturing equipment of the plants; on further investment in corporate's development to engineer the new production line no. 4 to provide market demanding products such as printing paper, medical packaging paper on a timely basis; and on developing the quality, variety and volume of products so as to enhance the economic benefits.

# CHAIRMAN'S STATEMENT


## BIODEGRADABLE MATERIALS MANUFACTURING BUSINESS

In March 2010, the Group acquired 60% equity interest in a joint venture company, Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司, "Dongguan Jiu He"). Dongguan Jiu He is principally engaged in the development, production and sale of biodegradable materials and related products by entering into a patent license agreement with its PRC partner in relation to patented technologies.

As the previously selected location of the plant of Dongguan Jiu He in Dongguan was not satisfactory and there were difficulties arising from preparatory works coupled with problems such as supply of electricity and labour, the board of directors of Dongguan Jiu He decided to transfer the production plant to Zhongshan Port Economic and Technical Development Zone. The new plant of Zhongshan Jiu He Bioplastics Company Limited ("Zhongshan Jiu He") has been renovated and put into operation and the equipment has been installed in September 2011. Zhongshan Port Economic and Technical Development Zone is a national development zone, where the policies are more preferential. The road and maritime transports are more convenient and the production and living auxiliary facilities there are more comprehensive, attracting more advanced technological talents and management personnel, and the labour costs are also relatively lower.

The major production equipments ordered are more advanced in technology within the industry. The production equipments were delivered one after another to the plant since May and all ordered equipments had been manufactured by the end of June. The equipments were underwent testing and were delivered to the plant by the end of July for installation and trial operation. The installation of around 40 sets of equipments was completed and some were put into production by the end of September 2011. Zhongshan Jiu He had started trail production in small scale and applied for the product certificates at the same time. Zhongshan Jiu He developed a biodegradable-based plastics company standard, which was approved by Zhongshan City Technical Supervision Authorization (中山市技術監督局) and submitted to the Guandong Provincial for record. Moreover, the biodegradable material had passed the test performed by State Plastic Products Quality Supervision and Inspection Center (國家塑膠製品品質監督檢驗中心) and got the product certificate.

# CHAIRMAN'S STATEMENT




The Group has engaged technical and management personnel with extensive experience and reserved land for the development of phase II project for the sake of corporate development in the future. Based on the existing technology patents, Zhongshan Jiu He recruited professionals for technological research and development to continuously look for newer and better technology and also to start launching independent research and development and the acquisition of the latest intellectual property rights.

It is expected after full operation that Zhongshan Jiu He would be able to produce 20,000 to 30,000 tons of biodegradable materials annually as well as environmentally friendly downstream products of biodegradable materials including blowing and molding, injection, extrusion and foaming.

PRC and the rest of the world are paying more attention to environmental protection and setting more restrictions on the production and sale of environment-unfriendly products such as plastic bags. We manufacture biodegradable resin and related downstream degradable environment-friendly products with sustainable raw materials such as tapioca flour, organic raw materials, straw and fiber. Processed biodegradable products can be decomposed into soil-friendly substances by natural organism after being discarded. This project is not only in line with the international and our national environmental policies but also the business plan of the environment protection industry that the Group engages in.

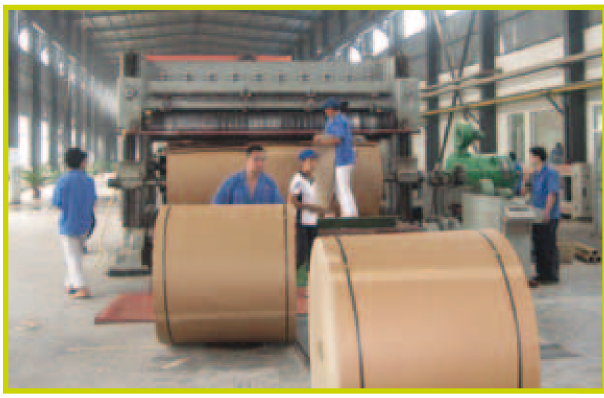
## PROSPECTS

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

The Group's management will continue to optimize the Group's resource advantages by speeding up the construction of the new plant and new production lines, strengthening enterprise management, focusing on cost control, reducing the consumption of energy and raw and accessory materials as well as diversifying the range of products and enhancing the product quality, establishing research and development base, and expanding the sale network in order to seize more opportunities and create considerable economic benefits and thus maximize shareholders' return.

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






# CHAIRMAN'S STATEMENT

## OUR APPRECIATION

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

**Wong Kam Leong**
*Chairman*
Hong Kong, 29 June 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

### (A) Grant of the equity line of credit to the Company

Referring to the announcements of the Company dated 12 September 2011, 16 September 2011, 27 September 2011 and 2 November 2011 and the circular of the Company dated 3 October 2011, the Company entered into the equity line of credit agreement dated 9 September 2011 (as amended and supplemented by two supplemental agreements dated 16 September 2011 and 27 September 2011, respectively) (the "Equity Line of Credit Agreement") with Lyceum Partners LLC (the "Investor"), pursuant to which the Company is granted the option to require the Investor to subscribe for up to an aggregate of 1,000,000,000 shares of the Company (the "Option Shares") if the option structured under the Equity Line of Credit Agreement is exercised in full. Details of the Agreement are set out in the announcements of the Company dated 12 September 2011, 16 September 2011, 27 September 2011 and 2 November 2011 and the circular of the Company dated 3 October 2011. The shareholders of the Company, at the special general meeting held on 2 November 2011, approved the Equity Line of Credit Agreement and the transactions contemplated thereunder including but not limited to the allotment and issue of the Options Shares as set out in the notice of special general meeting dated 3 October 2011.



### (B) Supplementary circular in relation to major transaction

Referring to the announcement of the Company dated 27 September 2011 and 2 November 2011 and the circular of the Company dated 30 September 2011, Fast Rise Development Limited ("Fast Rise"), a wholly-owned subsidiary of the Company, entered into the further supplemental agreement with Mr. Leung Wa (the "Vendor"), the vendor of Ever Stable Holdings Limited ("Ever Stable"), pursuant to which Ever Stable and Guangdong Shangjiu Biodegradable Plastics Company Limited (廣東上九生物降解塑料有限公司, the "PRC Partner") have agreed to deregister the Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司, "Dongguan Jiu He"). According to the terms and conditions of the equity transfer agreement to be executed by World Champion Investments Limited ("World Champion") and the PRC Partner, the 40% equity interests in Zhongshan Jiu He Bioplastics Company Limited ("Zhongshan Jiu He") held by World Champion as nominee for and on behalf of the PRC Partner shall be transferred to the PRC Partner at a consideration calculated based on 40% of the total paid-up capital of Zhongshan Jiu He as at the date of the equity transfer agreement. After the completion of the equity transfer agreement and the completion of the deregistration of Dongguan Jiu He, World Champion and the PRC Partner shall enter into the capital increase agreement, pursuant to which the total registered capital of Zhongshan Jiu He shall be changed from US$4,000,000 to US$17,000,000, of which the Vendor shall through World Champion contribute US$10,200,000 as registered capital to Zhongshan Jiu He, representing 60% of the total registered capital of Zhongshan Jiu He, and the PRC Partner shall contribute US$6,800,000 as registered capital to Zhongshan Jiu He, representing 40% of the total registered capital of Zhongshan Jiu He. As Dongguan Jiu He will be deregistered, the contractual interests of Dongguan Jiu He under the patent license agreement and master agreement will be transferred to Zhongshan Jiu He, other terms and conditions of the patent license agreement and the master agreement will remain unchanged. Details of the supplementary agreement; the further supplementary agreement; the equity transfer agreement; the capital increase agreement; and the transfer of contractual interests of Dongguan Jiu He under the patent license agreement and master agreement are set out in the announcement of the Company dated 27 September 2011 and the circular of the Company dated 30 September 2011. The shareholders of the Company, at the special general meeting held on 2 November 2011, approved the supplemental agreement, the further supplemental agreement and the transactions contemplated thereunder as set out in the notice of special general meeting dated 30 September 2011. Upon the completion of the deregistration of the Dongguan Jiu He, the equity transfer agreement; the capital increase agreement; and the transfer of contractual interests of Dongguan Jiu He under the patent license agreement and master agreement will be executed.

**(C) Confirmation letter in relation to the convertible bonds and profit guarantee issued under the very substantial acquisition**

Referring to the announcement of the Company dated 3 October 2011, the Company and the vendor of Mega Bright Investment Development Limited ("Mega Bright") entered into the third confirmation letter (the "Third Confirmation Letter") in relation to the convertible bonds issued under the acquisition agreement, pursuant to which the Company and the vendor of Mega Bright have agreed that (i) the conversion rights attached to the convertible bonds had expired on 29 September 2011 according to the terms and conditions of the convertible bonds; (ii) the principal amount of the convertible bonds of HK$18,000,000 shall remain as the bonds liabilities of the Company and the repayment date of the bonds liabilities shall be adjusted to 31 March 2012 (or such later date as the parties may mutually agree in writing) without interest; and (iii) if Jining Gangning Paper Co. Ltd. ("Jining Gangning") fails to meet the profit guarantee for the financial year 2011, the vendor of Mega Bright shall compensate the Company with the shortfall of the profit guarantee by way of set off against the bonds liabilities up to the amount of HK$18,000,000. Details of the Third Confirmation Letter were set out in the announcement of the Company dated 3 October 2011.

Referring to the announcement dated 28 June 2012, the Company and the vendor of Mega Bright entered into the fourth confirmation letter (the "Fourth Confirmation Letter") in relation to the profit guarantee. According to the Jining Gangning, the aggregate net profit after tax for the financial years ended 31 December 2010 and 2011 were affected by the increase in the market price of the raw materials due to the reduction and withdrawal of government subsidies provided to the recycled paper supplier; the reduction and withdrawal of purchase rebate; the increase in the price of electricity and the cost of steam generation (the"Profit Reduction Factors"). These Profit Reduction Factors, together, reduced aggregate net profit after tax by RMB47,850,718, of which, RMB24,403,866 (equivalent to approximately HK$30,146,096) is attributable to the Company (the"Profit Reduction"). The Company and the vendor mutually agreed that the Profit Reduction Factors are force majeure events which are not predictable nor avoidable. Pursuant to acquisition agreement, no party shall be liable for failure or delay performing of the contractual obligations due to the force majeure events. The Company and the vendor have agreed to set off the Profit Guarantee Shortfall Balance of HK$31,602,530 against the Profit Reduction of HK$30,146,096. The remaining balance of HK$1,456,434 shall be payable by the vendor within one month from the date of the Fourth Confirmation Letter. Details of the Fourth Confirmation Letter were set out in the announcement of the Company dated 28 June 2012.

### (D) Very substantial acquisition and connected transaction

Referring to the announcements of the Company dated 14 October 2011, 26 October 2011, 13 December 2011 and 19 April 2012, a wholly owned subsidiary of the Company (the "Purchaser") has, on 13 October 2011, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Wide Fine (Asia) Development Limited (a company beneficially owned by Mr. Wong Kam Leong, a substantial shareholder of the Company and an executive Director) and Gain Concept Industries Limited (an independent third party of the Company) (collectively, the "Vendors") relating to the acquisition of the entire issued share capital of Fame Shine Holdings Limited (the "Target Company") at a consideration of HK$780,000,000, to be payable by the Purchaser to the Vendors in cash and by issue of promissory notes and convertible notes of the Company (the "Proposed Acquisition"). The Purchaser, upon the completion of the Proposed Acquisition, will in turn own 80% of the beneficial interest in Henan Sunrise Silicon Technology Development Company Limited (the "Sunrise Silicon") owned by Star Grace International Limited (the "Star Grace"), a wholly owned subsidiary of the Target Company. Subsequently, the Purchaser, in accordance with the post-completion obligation pursuant to the Sale and Purchase Agreement, agreed to procure Star Grace to inject RMB180,000,000 (equivalent to approximately HK$220,000,000) as registered capital in Sunrise Silicon, such that the Purchaser will ultimately own 90% of the beneficial interest in Sunrise Silicon. On 19 April 2012, the Purchaser and the Vendors mutually agreed to terminate the Sale and Purchase Agreement by entering into the Termination Agreement with immediate effect. The Board of the Company has recently reviewed the latest position of the Proposed Acquisition and evaluated the benefits expected to be brought by the Proposed Acquisition. The Company was not satisfied with the due diligence performed. Further, in view of (i) the decline in the selling price of the metallurgical silicon per tonne; (ii) the keen market competition in the solar energy sector; (iii) the restriction imposed in Europe on imports from the PRC; (iv) the current financial position of the Group; and (v) the difficulties in raising funds to finance the Proposed Acquisition, the Board decided to terminate the Sale and Purchase Agreement. Details of the Sale and Purchase Agreement are set out in the announcements of the Company dated 14 October 2011, 26 October 2011, 13 December 2011 and 19 April 2012.

### (E) Subscription for new shares ("subscription")

Referring to the announcement of the Company dated 12 January 2012, the Company entered into a subscription agreement with a subscriber who subscribed for 520,000,000 new shares of HK$0.04 each in the share capital of the Company at a subscription price of HK$0.04 each. The net proceeds from the subscription were approximately HK$19,920,000 and were applied for the acquisition of machineries for the biodegradable materials manufacturing business; the repayment of the interest of the Convertible Notes and general working capital of the Group. Completion of the subscription took place on 13 February 2012.

### (F) Share consolidation, capital reduction and capital increase

Referring to the announcement dated 27 January 2012 and circular of the Company dated 10 February 2012, the Company proposed to implement the share consolidation of every twenty (20) issued and unissued Shares of HK$0.04 each in the share capital of the Company into one (1) Consolidated Share of HK$0.80 ("Share Consolidation"). Upon the Share Consolidation becoming effective, the Company proposed to implement the capital reduction involving (i) the reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK$0.79 on each of the then issued consolidated shares ("Consolidated Shares") such that the par value of each of the issued Consolidated Shares be reduced from HK$0.80 to HK$0.01 ("Capital Reduction"); and (ii) the reduction of the authorised share capital of the Company by reducing the par value of all Consolidated Shares from HK$0.80 each to HK$0.01 each resulting in the reduction of the authorised share capital of the Company from HK$300,000,000 divided into 375,000,000 Consolidated Shares of HK$0.80 each to HK$3,750,000 divided into 375,000,000 new shares ("New Share") of HK$0.01 each. Upon the Share Consolidation and Capital Reduction becoming effective, the Company proposes to implement the capital increase involving the increase of the authorized share capital of the Company from HK$3,750,000 divided into 375,000,000 New Shares of HK$0.01 each to HK$300,000,000 divided into 30,000,000,000 New Shares of HK$0.01 each ("Capital Increase"). Details of the Share Consolidation, Capital Reduction and Capital Increase were set out in the announcement and circular of the Company dated 27 January 2012 and 10 February 2012 respectively. The shareholders of the Company, at the special general meeting held on 5 March 2012, approved the Share Consolidation, Capital Reduction and Capital Increase and the transactions contemplated thereunder as set out in the notice of special general meeting dated 10 February 2012. The Share Consolidation, Capital Reduction and Capital Increase were effective on 6 March 2012.

### (G) Issue of convertible bonds



Referring to the announcement dated 3 April 2012 and circular of the Company dated 21 May 2012, the Company entered into the subscription agreement ("Subscription Agreement") with the subscriber, pursuant to which, the subscriber has conditionally agreed to subscribe for the convertible bonds ("Convertible Bonds") in the principal amount of HK$100,000,000 due three years from the closing date with the right to convert the Convertible Bonds into a maximum of 485,242,666 conversion shares ("Conversion Shares") at the conversion price of HK$0.30 ("Conversion Price") (subject to adjustments) per Conversion Share. Assuming full conversion of the Convertible Bonds and all the accrued but unpaid interest of the Convertible Bonds are converted at the Conversion Price, a maximum of 485,242,666 Conversion Shares will be issued by the Company, representing (i) approximately 308.68% of the Company's existing total issued share capital of the Company of 157,197,250 Consolidated Shares as at the date of the Subscription Agreement; and (ii) approximately 75.53% of the Company's total issued share capital as enlarged by the issue of the Conversion Shares of 642,439,916 Shares upon full conversion of the Convertible Bonds. The estimated net proceeds from the issue of the Convertible Bonds (after deduction of all related expenses) of approximately HK$98,000,000 will be used to redeem the convertible notes issued by the Company on 28 December 2010 and the remaining amount will be used as the general working capital of the Group. Details of issue of Convertible Bonds were set out in the announcement and circular of the Company dated 3 April 2012 and 21 May 2012 respectively. The shareholders of the Company, at the special general meeting held on 13 June 2012, approved the issue of Convertible Bonds and the transactions contemplated thereunder as set out in the notice of special general meeting dated 21 May 2012. The issue of Convertible Bonds was still not completed on 29 June 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### REVENUE AND LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year under review, the Group's revenue was approximately HK$241.22 million, a decrease of 16.52% as compared to last year (2011: HK$288.97 million). The decrease in revenue was mainly due to the paper manufacturing business, which recorded a revenue of HK$238.94 million for the year under review, a decrease of 17.10% as compared to last year. Zhongshan Jiu He started trial production in small scale, so only limited revenue was contributed by the biodegradable materials manufacturing business during the year.

For the year under review, the Group recorded a net loss attributable to owners of the Company of HK$42.77 million as against a net loss of HK$26.87 million in 2011. The net loss was mainly due to the interest expenses on convertible note, bank borrowings and other loans; the amortization of intangible assets; and the impairment of goodwill in relation to the paper manufacturing business.

### SEGMENT PERFORMANCE

During the year under review, revenue contributed by the Group's paper manufacturing business, biodegradable materials manufacturing business and provision of money lending services was 99.0%, 0.4% and 0.6% respectively, comparing to 99.7%, 0% and 0.3% respectively in 2011.

### LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO



As at 31 March 2012, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to approximately HK$109.67 million (2011: HK$70.46 million). The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Renminbi income receipt for operating expenses in the PRC and did not use any financial instruments for hedging purpose.

As at 31 March 2012, the Group had secured bank loans of approximately HK$25.94 million (2011: HK$27.99 million), unsecured bank and other loans of approximately HK$50.56 million (2011: HK$3.57 million) and secured entrustment loan of approximately HK$7.18 million (2011: HK$18.76 million). All borrowings were denominated in Renminbi, except the other loan of approximately HK$3 million was denominated in Hong Kong Dollars. The bank loans of approximately HK$25.94 million and the other loan of approximately HK$3 million had fixed interest rates.

As at 31 March 2012, the Group's gearing ratio, determined as the proportion of net debt to equity derived from the consolidated statement of financial position, was approximately 34.80% (2011: 25.46%). The Group continues to monitor its working capital requirement closely with a view to reducing its total borrowings to lower the finance costs and maintain a healthy net gearing ratio of the Group.

During the year under review, the Group financed its operations primarily with internally generated cash flow as well as the funds raised successfully from the Subscription in the amount of approximately HK$19.92 million after expenses. The net proceeds from the Subscription were applied for the acquisition of machineries for the biodegradable materials manufacturing business; the repayment of the interest of the Convertible Notes and general working capital of the Group.

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

## CHARGE OF GROUP'S ASSETS

As at 31 March 2012, the Group's land use rights and buildings with net carrying values of approximately HK$19.73 million and HK$28.14 million respectively were pledged to secure bank loans of approximately HK$25.94 million. In addition, the Group had restricted bank deposits of approximately HK$101.73 million held to secure bank acceptance note payables of approximately HK$156.70 million arising from normal trade.

As at 31 March 2011, the Group's land use rights and buildings with net carrying values of approximately HK$19.56 million and HK$28.59 million respectively were pledged to secure bank loans of approximately HK$27.99 million. In addition, the Group had restricted bank deposits of approximately HK$45.85 million to secure bank acceptance note payables of approximately HK$65.51 million arising from normal trade.

## FOREIGN CURRENCY EXPOSURE

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



## CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 31 March 2012.

## EMPLOYEES

As at 31 March 2012, the Group had approximately 185 (2011: 107) employees in Hong Kong and the PRC. The total remuneration to employees, including the executive Directors for the year under review, amounted to approximately HK$24.10 million (2011: HK$22.02 million). Employees in Hong Kong are entitled to provident fund contributions and medical insurance. For employees in the PRC, the Group is required to contribute to state-sponsored retirement plans at certain prescribed rates based on their basic salaries. In addition, the Group provides comprehensive on-the-job training to its employees and sponsors employees who participate in job-related training courses to ensure that their qualifications always meet the changing market standards. The remuneration policy and packages are regularly reviewed by the Board. Apart from provident fund scheme, medical insurance and discretionary bonuses, share options are also awarded to employees according to the assessment of individual performance.

## FUTURE PLAN OF CAPITAL INVESTMENTS

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

# PROFILE OF DIRECTORS

Profile of the Directors are set out as follows:

## EXECUTIVE DIRECTORS

**Mr. Wong Kam Leong**, aged 48, has been the chairman of the Company since 28 November 2005. Mr. Wong was the chairman of 國家經貿委機關服務局中山銀興（集團）有限公司 (Zhongshan Yinxing (Holdings) Limited, the Internal Service Bureau of the State Economic and Trade Commission), a general manager of 輕工業部北京國輕實業公司 (Beijing National Light Industrial Company limited, the Ministry of Light Industry), the chairman of 中山威力電器集團有限公司 (Zhongshan Weili Electronics Appliances Group Limited) and a director of 中國科技證券有限責任公司 (China Science and Technology Securities Company Limited Liability Company). He has more than 20 years experience in sales and marketing and property trading and development in the PRC. Mr. Wong is responsible for the overall strategic planning, direction and business development of the Company. Mr. Wong is a substantial shareholder of the Company.

**Mr. Wu Shaohong,** aged 42, has been the vice chairman of the Company since 15 December 2012. Mr. Wu is currently the general manager of Tai Fu Asset Management Company Limited* (泰富資產管理有限公司) and Xing Ye Gang Tie Group* (興業鋼鐵集團) in the PRC, responsible for corporate management, investment acquisition and corporate restructuring. Mr. Wu has acquired extensive experience in international trade, corporate finance activities, managing the transactions for mergers and acquisitions and extensive hands on business experience in the PRC. Mr. Wu is responsible for corporate finance activities, new project investment and business development of the Company.

**Mr. Hu Dongguang**, aged 63, has been an executive Director and the Chief Executive Officer of the Company since 18 January 2010. Mr. Hu is a senior economist in the People's Republic of China ("PRC"). Mr. Hu holds a bachelor's degree in economics from Beijing Economics Institute (now Capital University of Economics and Business) (北京經濟學院（現首都經貿大學）). Mr. Hu has more than 30 years extensive experience in development planning, capital operations, administration management and sales management. Mr. Hu also served as the deputy secretary for Food Industries, the Ministry of Light Industries (輕工業部食品工業司),the managing director of 香港穗華公司, a window company of the Ministry of Light Industries in Hong Kong, the chairman of the Council of China Beverage Industry Association (中國飲料工業協會), a deputy director of Economic and Trade Division, the Ministry of Light Industries of the PRC (中國輕工業部經濟貿易部), the assistant to the head of Light Weaving Office of Ningxia Province (寧夏省輕紡廳), the director of Legal Regulation Office (法規處), the deputy division chief of Survey and Investigations Division (調研處), a consultant in the Sixth Specialist Consultant Team of the People's Government of Beijing (北京人民政府第六屆專家顧問團) and a vice chairman of Chinese Cultural Industries Development Fund (及中國文化產業發展基金). Mr. Hu is responsible for administrative aspects and business development of the Group.

# PROFILE OF DIRECTORS

**Mr. Wu Bingxiang**, aged 47, has been an executive Director of the Company since 1 September 2009. Mr. Wu is also chairman of Jining Gangning Paper Co. Ltd. in Shandong Province in the PRC, a 51%-owned subsidiary of the Company. From 2000 to 2008, Mr. Wu was a deputy general manager and an executive director of a building materials company in the PRC and has extensive experience in management, merchandising and marketing in the PRC. Mr. Wu is responsible for administrative aspects and business development of the paper manufacturing business of the Group.

**Dr. Guo Wanda**, aged 46, has been an executive Director of the Company since 1 May 2010. Dr. Guo is a vice president of China Development Institute of Shenzhen. He is also chairman of Shenzhen Association of Management Consultants. Dr. Guo graduated from Nankai University in Tianjin, the People's Republic of China ("the PRC") with a Bachelor's Degree and a Master's Degree in economics. He also obtained a Doctor of Philosophy in economics from the same university in 1991. Dr. Guo has extensive experience in China macroeconomics, industrial economy, industrial investment and corporate development strategy. Dr. Guo has been an independent non-executive director of Powerleader Science & Technology Group Limited, which is listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), since 2008, and Shenzhen FIYTA Holdings Limited, which is listed on the Shenzhen Stock Exchange, since 2005 respectively. Dr. Guo has been assessed and approved as a researcher by 廣東省職稱評定委員會 (Title Evaluation Committee of Guangdong Province). He has worked with various government departments, corporations and research institutes, namely, as an assistant to the general manager at 深圳廣順股份有限公司 (Shenzhen Guangshun Co., Ltd.), the chairman and general manager of 湖北沙市廣順公司 (Hubei Shashi Guangshun Company), the director of 深圳市政府信息中心宏觀室 (division of macroeconomic of Shenzhen Municipal Government Information Center), the editor-in-chief of 經濟動態 (Economic Dynamic), a committee member of 深圳市委市政府決策諮詢委員會 (advisory committee of Shenzhen municipal government), a member of 深圳市社科聯主席團 (the presidium of Shenzhen Academy of Social Sciences), an expert of 深圳市軟科學專家委員會 (Shenzhen Soft Science Expert Committee), a general manager of 綜合開發研究院所屬腦庫投資管理公司 (Shenzhen ThinkTank Investment & Management Co., Ltd. under China Development Institute of Shenzhen) and a vice president of 深圳市宏觀經濟學會 (Macroeconomic Association of Shenzhen City). Dr. Guo is responsible for business and technical development of the biodegradable materials manufacturing business of the Group and future investments in environmental and recycling businesses in the PRC and globally.

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

**Mr. Ng Kwok Chu, Winfield,** aged 53, has been an INED and a member of audit committee and remuneration committee of the Company since 3 January 2006. Mr. Ng has more than 25 years consumer and commercial finance experiences in the markets of Hong Kong and the PRC. He is an executive director of Sino Prosper State Gold Resources Holdings Limited, a company listed on the Main Board of the Stock Exchange, and an executive director of China Netcom Technology Holdings Limited, a company listed on the GEM of the Stock Exchange, and an independent non-executive director of China Uptown Group Company Limited, a company listed on the Main Board of the Stock Exchange.

**Mr. Ng Chau Tung, Robert**, aged 56, has been an INED and a member of audit committee and remuneration committee of the Company since 3 January 2006. Mr. Ng is the chief executive officer of a private company, which mainly involves in financial arrangement for listed companies and small and medium enterprises, and trading of environmental protection or energy saving products. Mr. Ng holds a Bachelor of Business Administration from The Chinese University of Hong Kong. He is a Registered Financial Planner, a fellow member of the Institute of Financial Accountant (U.K.) and a full member of Certified Professional Economist of Hong Kong Society of Economists Limited. Mr. Ng has more than 25 years experience in the banking sector. He was the chairman of the Hong Kong Equipment Leasing Association and an independent non-executive committee member of the Finance House Association and the Hong Kong Deposit Taking Company Association.

**Mr. Tse Ching Leung**, aged 38, has been an INED and a member of audit committee and remuneration committee of the Company since 1 September 2009. Mr. Tse holds an accounting degree in the City University of Hong Kong and has more than 15 years experience in professional auditing, accounting and financial management. He is the financial controller and company secretary of Sau San Tong Holdings Limited, a company listed on GEM of the Stock Exchange. Mr. Tse is an associate member of Hong Kong Institute of Certified Public Accountants.

**Mr. Wang Qingyi**, aged 48, has been an INED of the Company since 18 January 2010. Mr. Wang is a graduate of the Central Communist Party School (中央黨校) in economics. Mr. Wang is currently a deputy director of Hainan Province Yangpu Economic Development Zone (海南省洋浦經濟開發區) and a deputy secretary general of China Optimization Society of Capital Construction (中國基本建設優化研究會). Mr. Wang has more than 20 years of experience in economics and administration management. Mr. Wang has worked for State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), State Economic and Trade Commission (國家經濟貿易委員會) and Central Committee General Office (中央辦公廳). Mr. Wang was also an independent director of Jonjee Hi-tech Industrial & Commercial Co., Ltd. (中炬高新技術實業(集團)股份有限公司), a company listed in Shanghai, from July 2006 to May 2008.

# REPORT OF THE DIRECTORS

The Directors present their report together with the audited accounts for the year ended 31 March 2012.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 40-41. The Directors do not recommend the payment of a dividend for the year ended 31 March 2012 (2011: Nil).

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 39 to the accounts and in the consolidated statement of changes in equity on pages 45-46 respectively.

Details of distributable reserves of the Company as at 31 March 2012 are set out in note 39 to the accounts.



## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in the share capital are set out in note 38 to the accounts.

## PRE-EMPTIVE RIGHTS

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

## FINANCIAL INFORMATION SUMMARY

A summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years is set out on page 4.

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

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

## CONNECTED TRANSACTIONS

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

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## DIRECTORS

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

*Executive Directors*
Mr. Wong Kam Leong
Mr. Wu Shaohong (Appointed on 15 December 2011)
Mr. Hu Dongguang
Mr. Wu Bingxiang
Dr. Guo Wanda

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

In accordance with the Bye-Laws of the Company, Mr. Hu Dongguang, Mr. Guo Wanda and Mr. Wang Qingyi will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

Also, in accordance with the Bye-Laws of the Company, Mr. Wu Shaohong being new Director appointed by the Board, shall retire from office at the forthcoming AGM and, being eligible, offer themselves for re-election at the AGM.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 March 2012, the following Directors and chief executive of the Company had or were deemed to have interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap.571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules:

### Long positions in Shares

| Name | Type of interest | Number of ordinary shares of the Company | Number of underlying shares of the Company | Total | Percentage of Shareholding |
|---|---|---|---|---|---|
| *Directors* | | | | | |
| Wong Kam Leong | Corporate Interest | 30,206,250 *(Note 1)* | | 30,956,250 | 19.69% |
| | Personal Interest | | 750,000 *(Note 2)* | | |
| Hu Dongguang | Personal Interest | – | 750,000 *(Note 2)* | 750,000 | 0.48% |
| Wu Bingxiang | Personal Interest | – | 700,000 *(Note 3)* | 700,000 | 0.45% |
| Guo Wanda | Personal Interest | – | 700,000 *(Note 3)* | 700,000 | 0.45% |
| Ng Kwok Chu, Winfield | Personal Interest | – | 75,000 *(Note 4)* | 75,000 | 0.05% |
| Ng Chau Tung, Robert | Personal Interest | – | 75,000 *(Note 4)* | 75,000 | 0.05% |
| Tse Ching Leung | Personal Interest | – | 85,000 *(Note 5)* | 85,000 | 0.05% |
| Wang Qingyi | Personal Interest | – | 50,000 *(Note 6)* | 50,000 | 0.03% |

# REPORT OF THE DIRECTORS

*Notes:*

1. Out of the 30,206,250 shares in the Company, 12,706,250 shares are beneficially owned by and registered in the name of Wide Fine International Limited ("Wide Fine"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Wong Kam Leong, an executive Director and 17,500,000 shares are beneficially owned by and registered in the name of View Good International Limited ("View Good"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Tam Sio Wan, the wife of Mr. Wong Kam Leong.

2. As at 31 March 2012, 750,000 share options conferring rights to subscribe for 750,000 shares.

3. As at 31 March 2012, 700,000 share options conferring rights to subscribe for 700,000 shares.

4. As at 31 March 2012, 75,000 share options conferring rights to subscribe for 75,000 shares.

5. As at 31 March 2012, 85,000 share options conferring rights to subscribe for 85,000 shares.

6. As at 31 March 2012, 50,000 share options conferring rights to subscribe for 50,000 shares.

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



Save as disclosed above, as at 31 March 2012, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), 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 were 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.

## OPTION SCHEMES

A share option scheme (the "Old Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006. Under the Old Scheme, the Board was authorised to grant options to the participants of the Group including any employee, director, adviser, consultant, licensor, distributor, supplier, agents, customer, joint venture partner, strategic partner and service provider to or of any member of the Group whom the Board considers in its sole discretion to subscribe for the shares of the Company. The Old Scheme expired on 17 August 2010 as the term thereof is ten (10) years from the date on which dealings in the shares of the Company first commenced on GEM.

A new share option scheme (the "Existing Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 23 August 2010 (the "AGM"), details of which are set out in the circular of the Company dated 21 July 2010.

## OPTION SCHEMES (Continued)

Details of the outstanding and movements of the share options under the Old Scheme and the Existing Scheme (collectively "the Scheme") during the year are as follows:

| Grantee | As at 1 April 2011 | Granted during the year | Adjustments* | Cancelled/ lapsed during the year | Exercised during the year | As at 31 March 2012 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Guo Wanda | 14,000,000 | – | (13,300,000) | – | – | 700,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Hu Dongguang | 11,000,000 | – | (10,450,000) | – | – | 550,000 | 30/03/10 | 30/03/10 to 29/03/20 | 5.72* |
| Hu Dongguang | 4,000,000 | – | (3,800,000) | – | – | 200,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Ng Chau Tung, Robert | 250,000 | – | (237,500) | – | – | 12,500 | 20/02/08 | 20/02/08 to 19/02/18 | 4.88* |
| Ng Chau Tung, Robert | 250,000 | – | (237,500) | – | – | 12,500 | 02/05/08 | 02/05/08 to 01/05/18 | 3.92* |
| Ng Chau Tung, Robert | 1,000,000 | – | (950,000) | – | – | 50,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Ng Kwok Chu, Winfield | 250,000 | – | (237,500) | – | – | 12,500 | 20/02/08 | 20/02/08 to 19/02/18 | 4.88* |
| Ng Kwok Chu, Winfield | 250,000 | – | (237,500) | – | – | 12,500 | 02/05/08 | 02/05/08 to 01/05/18 | 3.92* |
| Ng Kwok Chu, Winfield | 1,000,000 | – | (950,000) | – | – | 50,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Tse Ching Leung | 700,000 | – | (665,000) | – | – | 35,000 | 01/09/09 | 01/09/09 to 31/08/19 | 3.20* |
| Tse Ching Leung | 1,000,000 | - | (950,000) | – | – | 50,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Wang Qingyi | 1,000,000 | – | (950,000) | – | – | 50,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Wong Kam Leong | 6,750,000 | – | (6,412,500) | – | – | 337,500 | 09/05/08 | 09/05/08 to 08/05/18 | 3.84* |

## OPTION SCHEMES (Continued)

| Grantee | As at 1 April 2011 | Granted during the year | Adjustments* | Cancelled/ lapsed during the year | Exercised during the year | As at 31 March 2012 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price HK$ |
|---|---|---|---|---|---|---|---|---|---|
| Wong Kam Leong | 750,000 | – | (712,500) | – | – | 37,500 | 18/05/09 | 18/05/09 to 17/05/19 | 3.36* |
| Wong Kam Leong | 750,000 | – | (712,500) | – | – | 37,500 | 01/09/09 | 01/09/09 to 31/08/19 | 3.20* |
| Wong Kam Leong | 3,000,000 | – | (2,850,000) | – | – | 150,000 | 30/03/10 | 30/03/10 to 29/03/20 | 5.72* |
| Wong Kam Leong | 3,750,000 | – | (3,562,500) | – | – | 187,500 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Wu Bing Xiang | 8,200,000 | – | (7,790,000) | – | – | 410,000 | 01/09/09 | 01/09/09 to 31/08/19 | 3.20* |
| Wu Bing Xiang | 2,000,000 | – | (1,900,000) | – | – | 100,000 | 30/03/10 | 30/03/10 to 29/03/20 | 5.72* |
| Wu Bing Xiang | 3,800,000 | – | (3,610,000) | – | – | 190,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Zhang Chi# | 6,500,000 | – | (6,175,000) | – | – | 325,000 | 31/12/08 | 31/12/08 To 30/12/18 | 2.80* |
| Zhang Chi# | 3,500,000 | – | (3,325,000) | – | – | 175,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| Sub-total | 73,700,000 | – | (70,015,000) | – | – | 3,685,000 | | | |

* This reflects the adjusted exercise prices and number of share options which have been granted and are outstanding after the Share Consolidation, details of which are set out in note 38.

# Mr. Zhang Chi resigned as Director of the Company on 29 April 2011. However, Mr. Zhang Chi becomes a consultant to the Group and continues to be entitled to the shares options after his resignation as a Director of the Company.

## OPTION SCHEMES (Continued)

| Grantee | As at 1 April 2011 | Granted during the year | Adjustments* | Cancelled/ lapsed during the year | Exercised during the year | As at 31 March 2012 | Date of grant (dd/mm/yy) | Exercisable period (dd/mm/yy) | Exercise price HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Other employees and consultants** | | | | | | | | | |
| In aggregate | 3,500,000 | – | (3,325,000) | – | – | 175,000 | 20/02/08 | 20/02/08 to 19/02/18 | 4.88* |
| In aggregate | 500,000 | – | (475,000) | – | – | 25,000 | 22/02/08 | 22/02/08 to 21/02/18 | 4.96* |
| In aggregate | 4,500,000 | – | (4,275,000) | – | – | 225,000 | 02/05/08 | 02/05/08 to 01/05/18 | 3.92* |
| In aggregate | 25,000,507 | – | (23,750,482) | – | – | 1,250,025 | 09/05/08 | 09/05/08 to 08/05/18 | 3.84* |
| In aggregate | 750,000 | – | (712,500) | – | – | 37,500 | 18/05/09 | 18/05/09 to 17/05/19 | 3.36* |
| In aggregate | 13,500,000 | – | (12,825,000) | – | – | 675,000 | 17/09/08 | 17/09/08 to 16/09/18 | 4.048* |
| In aggregate | 8,750,000 | – | (8,312,500) | – | – | 437,500 | 01/09/09 | 01/09/09 to 31/08/19 | 3.20* |
| In aggregate | 5,000,000 | – | (4,750,000) | – | – | 250,000 | 30/03/10 | 30/03/10 to 29/03/20 | 5.72* |
| In aggregate | 28,000,000 | – | (26,600,000) | – | – | 1,400,000 | 15/11/10 | 15/11/10 to 14/11/20 | 3.32* |
| In aggregate | 20,000,000 | – | (19,000,000) | – | – | 1,000,000 | 10/01/11 | 10/01/11 to 09/01/21 | 3.50* |
| In aggregate | – | 42,000,000 | (39,900,000) | – | – | 2,100,000 | 12/07/11 | 12/07/11 to 11/07/21 | 3.00* |
| Sub-total | 109,500,507 | 42,000,000 | (143,925,482) | – | – | 7,575,025 | | | |
| Total | 183,200,507 | 42,000,000 | (213,940,482) | – | – | 11,260,025 | | | |

* This reflects the adjusted exercise prices and number of share options which have been granted and are outstanding after the Share Consolidation, details of which are set out in note 38.

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

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 March 2012, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

| Name | Number of ordinary shares held | Number of underlying shares held | Total | Percentage of shareholding |
|---|---|---|---|---|
| Wide Fine International Limited *(Note 1)* | 12,706,250 | – | 12,706,250 | 8.08% |
| View Good International Limited *(Note 2)* | 17,500,000 | – | 17,500,000 | 11.13% |
| Nicky International Limited *(Note 3)* | 10,800,000 | – | 10,800,000 | 6.87% |
| Leung Wa *(Note 4)* | 11,100,000 | – | 11,100,000 | 7.06% |



*Notes:*

1. Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong ("Mr.Wong"), an executive Director.

2. View Good International Limited is beneficially and wholly owned by Ms. Tam Sio Wan, the wife of Mr.Wong.

3. Nicky International Limited is beneficially and wholly owned by Mr. Chen Jianqiu and Mr. Leung Wa in equal shares.

4. 10,800,000 out of 11,100,000 shares are attributable by shares held by Nicky International Limited.

Save as disclosed above, no other person had registered an interest or short position in the shares and underlying shares of the Company that was required to be reported pursuant to section 336 of the SFO as at 31 March 2012.

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | |
|---|---|
| Purchases | |
| – the largest supplier | 10.30% |
| – five largest suppliers combined | 27.28% |
| Sales | |
| – the largest customer | 11.69% |
| – five largest customers combined | 29.82% |

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 March 2012, the Directors were not aware of any business or interest of each Director, management shareholder (as defined in the GEM Listing Rules) and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.



## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 31 to 37 of this report.

## AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield as chairman, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 March 2012.

## BOARD PRACTICES AND PROCEDURES

Save as disclosed above, throughout the year ended 31 March 2012, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures.

## AUDITORS

The accounts for the year ended 31 March 2012 have been audited by Crowe Horwath (HK) CPA Limited who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Wong Kam Leong**
*Chairman*

Hong Kong, 29 June 2012

# CORPORATE GOVERNANCE REPORT

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

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Code on CG Practices") contained in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 March 2012.

## DIRECTORS SECURITIES TRANSACTIONS

Throughout the financial year ended 31 March 2012, the Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specified enquiry with the Directors, all the Directors confirmed that they have complied with the required standard such code of conduct and required standard of dealings and its code of conduct regarding Directors' securities transactions throughout the financial year ended 31 March 2012.

## BOARD OF DIRECTORS

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



As at 31 March 2012, the Board comprised nine Directors, including five executive Directors and four independent non-executive Directors.

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

*Executive Directors*
Mr. Wong Kam Leong
Mr. Wu Shaohong (Appointed on 15 December 2011)
Mr. Hu Dongguang
Mr. Wu Bingxiang
Dr. Guo Wanda

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

Under the Bye-Laws of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation save for any Director holding office as Chairman or Managing Director and those Directors appointed by the Board who only hold office until the forthcoming annual general meeting. The retiring Directors shall be eligible for re-election. The non-executive Directors and the independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation. Accordingly, Mr. Hu Dongguang, Mr. Guo Wanda and Mr. Wang Qingyi will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM. Also, in accordance with the Bye-Laws of the Company, Mr. Wu Shaohong being a new Director appointed by the Board, shall retire from office at the forthcoming AGM and, being eligible, offer themselves for re-election at the AGM.

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

## ROLE AND FUNCTION OF THE BOARD

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



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

## BOARD MEETINGS

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

| Directors | Attendance |
|---|---|
| *Executive Directors* | |
| Mr. Wong Kam Leong | 17/17 |
| Mr. Wu Shaohong *(Note 1)* | 6/17 |
| Mr. Hu Dongguang | 17/17 |
| Mr. Wu Bingxiang | 17/17 |
| Dr. Guo Wanda | 16/17 |
| *Independent Non-Executive Directors* | |
| Mr. Ng Kwok Chu, Winfield | 15/17 |
| Mr. Ng Chau Tung, Robert | 15/17 |
| Mr. Tse Ching Leung | 15/17 |
| Mr. Wang Qingyi | 15/17 |

*Note:*

1. Appointed on 15 December 2011.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## NOMINATION OF DIRECTORS

The Board is responsible for the selection and approval of candidates for appointment and the Company has established a nomination committee (the "Nomination Committee") since 9 May 2006 which currently consists of three independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tong, Robert and Mr. Tse Ching Leung. Mr. Ng Kwok Chu, Winfield currently presides as chairman of the Nomination Committee. The primary role and function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. In selecting the suitable candidates, the Board will take into account the qualifications, ability, working experience, leadership and professional ethics of the candidates.



No meetings were held by the Nomination Committee during the year ended 31 March 2012.

## REMUNERATION COMMITTEE

### COMPOSITION OF THE REMUNERATION COMMITTEE

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

## ROLE AND FUNCTION OF THE REMUNERATION COMMITTEE

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

## REMUNERATION COMMITTEE MEETINGS

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

| **Members** | **Attendance** |
|---|---|
| Mr. Ng Kwok Chu, Winfield *(Chairman)* | 1/1 |
| Mr. Ng Chau Tung, Robert | 1/1 |
| Mr. Tse Ching Leung | 1/1 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## INTERNAL CONTROL

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

## AUDIT COMMITTEE

### COMPOSITION OF THE AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. During the year ended 31 March 2012, the Audit Committee comprised the following members, namely, Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert, and Mr. Tse Ching Leung. All of them are independent non-executive Directors. The Chairman of the Audit Committee is Mr. Ng Kwok Chu, Winfield.

### ROLE AND FUNCTION OF THE AUDIT COMMITTEE

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

### AUDIT COMMITTEE MEETINGS

During the year ended 31 March 2012, the Audit Committee held four meetings to review and supervise the financial reporting process and has reviewed the quarterly, interim and annual results of the Group. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The Audit Committee also carried out and discharged its other duties as set out in the Code.

Attendance of each of the independent non-executive Directors at the Audit Committee meetings for the year ended 31 March 2012 is set out as follows:

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

The audited consolidated results of the Group for the year ended 31 March 2012 have been reviewed by the Audit Committee.

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

## AUDITORS' REMUNERATION

The amount of fees charged by the auditors generally depends on the scope and volume of the auditors' work. For the year ended 31 March 2012, the total remuneration of the Group's auditor for the statutory audit services is approximately HK$1,300,000 (2011: HK$1,120,000).

# INDEPENDENT AUDITOR'S REPORT

國富浩華(香港)會計師事務所有限公司
**Crowe Horwath (HK) CPA Limited**
Member Crowe Horwath International

香港 銅鑼灣 希慎道33號 利園34樓
34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Long Success International (Holdings) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 40 to 148, which comprise the consolidated and company statements 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 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 disclosure requirements of the Hong Kong Companies Ordinance.

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



We draw attention to note 2(b) to the financial statements which indicates that the Group incurred loss of approximately HK$51,835,000 for the year ended 31 March 2012 and as of that date, the Group's and the Company's current liabilities exceeded its current assets by approximately HK$151,544,000 and HK$99,912,000 respectively. In addition, as detailed in note 35 to the financial statements, the Company received redemption notice on 17 November 2011 from the noteholder requesting for the redemption of the convertible note with original principal amount of RMB70,000,000 and its accreted portion, together with the accrued but unpaid interest. In accordance with the relevant terms and conditions of the note instrument of the convertible note, the said amount has been due for repayment since December 2011 and remained unsettled up to the date of approval of these financial statements. These conditions, along with other matters as set forth in note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the success of the measures as stated in note 2(b) for the Group. Our opinion is not qualified in respect of this matter.

**Crowe Horwath (HK) CPA Limited**
Certified Public Accountants
Hong Kong, 29 June 2012

**Lau Kwok Hung**
Practising Certificate No.: P04169

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Revenue** | 4 | **241,220** | 288,970 |
| Cost of sales | | **(217,721)** | (262,012) |
| Gross profit | | **23,499** | 26,958 |
| Other income and net gains | 5 | **34,722** | 7,781 |
| Selling expenses | | **(882)** | (817) |
| Administrative expenses | | **(67,737)** | (52,018) |
| Operating loss | | **(10,398)** | (18,096) |
| Finance costs | 6 | **(23,924)** | (18,129) |
| Impairment loss on goodwill | 17 | **(20,556)** | – |
| Loss before taxation | 7 | **(54,878)** | (36,225) |
| Income tax | 8 | **3,043** | (267) |
| Loss for the year from continuing operations | | **(51,835)** | (36,492) |
| Discontinued operations | | | |
| Profit for the year from discontinued operations | 9 | **–** | 8,212 |
| **Loss for the year** | | **(51,835)** | (28,280) |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | | |
| – Exchange difference arising during the year | | **18,688** | 12,195 |
| – Reclassification adjustments upon disposal of subsidiaries | | **–** | (184) |
| | | **18,688** | 12,011 |
| **Total comprehensive loss for the year** | | **(33,147)** | (16,269) |
| **Loss for the year** | | | |
| Attributable to: | | | |
| Owners of the Company | | **(42,774)** | (26,870) |
| Non-controlling interests | | **(9,061)** | (1,410) |
| | | **(51,835)** | (28,280) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Total comprehensive loss for the year** | | | |
| Attributable to: | | | |
| Owners of the Company | | **(32,332)** | (18,276) |
| Non-controlling interests | | **(815)** | 2,007 |
| | | **(33,147)** | (16,269) |
| **Loss per share attributable to owners of the Company** | 13 | | (Restated) |
| From continuing and discontinued operations | | | |
| – Basic (HK cents per share) | | **(31.78)** | (35.32) |
| – Diluted (HK cents per share) | | **(31.78)** | (35.32) |
| From continuing operations | | | |
| – Basic (HK cents per share) | | **(31.78)** | (46.11) |
| – Diluted (HK cents per share) | | **(31.78)** | (46.11) |



The notes on pages 49 to 148 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **228,182** | 180,972 |
| Prepaid lease payments | 16 | **19,169** | 19,081 |
| Goodwill | 17 | **116,725** | 151,070 |
| Intangible assets | 18 | **234,171** | 244,445 |
| Available-for-sale financial asset | 20 | **180** | 180 |
| Derivative financial asset | 21 | **19,630** | – |
| Deposit for acquisition for property, plant and equipment | 22 | **73,148** | 59,532 |
| Loans receivable | 23 | **247** | – |
| **Total non-current assets** | | **691,452** | 655,280 |
| **Current assets** | | | |
| Loans receivable | 23 | **5,233** | 2,539 |
| Inventories | 24 | **40,314** | 21,097 |
| Trade receivables | 25 | **9,190** | 11,794 |
| Prepayment, deposits and other receivables | 26 | **115,409** | 105,066 |
| Pledged bank deposits | 30 | **101,727** | 45,854 |
| Cash and cash equivalents | 28 | **7,938** | 24,605 |
| **Total current assets** | | **279,811** | 210,955 |
| **Current liabilities** | | | |
| Trade payables | 29 | **12,165** | 19,004 |
| Other payables | 29 | **82,454** | 76,818 |
| Bank acceptance note payables | 30 | **156,698** | 65,505 |
| Current portion of interest-bearing loans | 31 | **83,680** | 43,395 |
| Convertible bonds | 34 | **–** | 16,603 |
| Convertible note | 35 | **–** | 36,135 |
| Derivative financial liabilities | 35 | **–** | 49,268 |
| Bond payable | 35 | **95,459** | – |
| Provision for taxation | | **899** | 884 |
| **Total current liabilities** | | **431,355** | 307,612 |
| **Net current liabilities** | | **(151,544)** | (96,657) |
| **Total assets less current liabilities** | | **539,908** | 558,623 |
| **Non-current liabilities** | | | |
| Interest-bearing loans | 31 | **–** | 6,922 |
| Deferred tax liabilities | 32(a) | **47,890** | 50,022 |
| **Total non-current liabilities** | | **47,890** | 56,944 |
| **NET ASSETS** | | **492,018** | 501,679 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

| | Note | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 38 | **1,572** | 104,958 |
| Share premium and reserves | | **366,787** | 272,247 |
| **Equity attributable to owners of the Company** | | **368,359** | 377,205 |
| **Non-controlling interests** | | **123,659** | 124,474 |
| **TOTAL EQUITY** | | **492,018** | 501,679 |

Approved and authorised for issue by the board of directors on 29 June 2012.

**Wong Kam Leong**
*Director*

**Hu Dongguang**
*Director*

The notes on pages 49 to 148 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 19 | **1** | 1 |
| Amounts due from subsidiaries | 27(a) | **499,624** | 501,271 |
| **Total non-current assets** | | **499,625** | 501,272 |
| **Current assets** | | | |
| Prepayment, deposits and other receivables | 26 | **54** | 5 |
| Cash and cash equivalents | 28 | **2,675** | 12,587 |
| **Total current assets** | | **2,729** | 12,592 |
| **Current liabilities** | | | |
| Other payables | 29 | **4,182** | 2,329 |
| Convertible bonds | 34 | **–** | 16,603 |
| Convertible note | 35 | **–** | 36,135 |
| Derivative financial liabilities | 35 | **–** | 49,268 |
| Bond payable | 35 | **95,459** | – |
| Interest-bearing loan | 31 | **3,000** | – |
| **Total current liabilities** | | **102,641** | 104,335 |
| **Net current liabilities** | | **(99,912)** | (91,743) |
| **Total assets less current liabilities** | | **399,713** | 409,529 |
| **Non-current liability** | | | |
| Amount due to a subsidiary | 27(b) | **37,135** | 41,635 |
| **Total non-current liabilities** | | **37,135** | 41,635 |
| **NET ASSETS** | | **362,578** | 367,894 |
| **CAPITAL AND RESERVES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 38 | **1,572** | 104,958 |
| Share premium and reserves | 39 | **361,006** | 262,936 |
| **TOTAL EQUITY** | | **362,578** | 367,894 |

Approved and authorised for issue by the board of directors on 29 June 2012.

**Wong Kam Leong**
*Director*

**Hu Dongguang**
*Director*

The notes on pages 49 to 148 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 | Exchange reserve HK$'000 | Share option reserve HK$'000 | Warrants reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Accumulated losses HK$'000 | Statutory reserve HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2010 | | 45,378 | 201,875 | (341) | 3,673 | 13,637 | - | 7,439 | (120,877) | - | 150,784 | 41,711 | 192,495 |
| Loss for the year | | - | - | - | - | - | - | - | (26,870) | - | (26,870) | (1,410) | (28,280) |
| Other comprehensive income | | | | | | | | | | | | | |
| Exchange difference arising during the year | | - | - | - | 8,778 | - | - | - | - | - | 8,778 | 3,417 | 12,195 |
| Reclassification adjustment upon disposal of subsidiaries | 9 | - | - | - | (184) | - | - | - | - | - | (184) | - | (184) |
| Total comprehensive loss for the year | | - | - | - | 8,594 | - | - | - | (26,870) | - | (18,276) | 2,007 | (16,269) |
| Issue of shares upon exercise of share options | 38(b)(ii) | 1,440 | 7,422 | - | - | (2,934) | - | - | - | - | 5,928 | - | 5,928 |
| Placing of new shares | 38(b)(i) | 49,500 | 156,355 | - | - | - | - | - | - | - | 205,855 | - | 205,855 |
| Released upon disposal of subsidiaries | 9 | - | - | 341 | - | - | - | - | - | - | 341 | (389) | (48) |
| Issue of shares upon acquisition of a new subsidiary | 38(b)(iii) | 8,640 | 20,952 | - | - | - | - | - | - | - | 29,592 | - | 29,592 |
| Share issuance expenses | | - | (3,404) | - | - | - | - | - | - | - | (3,404) | - | (3,404) |
| Acquisition of a new subsidiary | 40 | - | - | - | - | - | - | - | - | - | - | 66,056 | 66,056 |
| Cancellation of convertible bonds | | - | - | - | - | - | - | (4,092) | 1,117 | - | (2,975) | - | (2,975) |
| Issue of unlisted warrants | 38(b) | - | - | - | - | - | 1,500 | - | - | - | 1,500 | - | 1,500 |
| Equity-settled share-based payments | 36 | - | - | - | - | 7,860 | - | - | - | - | 7,860 | - | 7,860 |
| Transfer to statutory reserve | | - | - | - | - | - | - | - | (792) | 792 | - | - | - |
| Contribution from non-controlling interests | | - | - | - | - | - | - | - | - | - | - | 15,089 | 15,089 |
| At 31 March 2011 | | 104,958 | 383,200(#) | –(#) | 12,267(#) | 18,563(#) | 1,500(#) | 3,347(#) | (147,422)(#) | 792(#) | 377,205 | 124,474 | 501,679 |

The notes on pages 49 to 148 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Exchange reserve HK$'000 | Share option reserve HK$'000 | Warrants reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Accumulated losses HK$'000 | Statutory reserve HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2011 | | 104,958 | 383,200 | - | 12,267 | 18,563 | 1,500 | 3,347 | (147,422) | 792 | 377,205 | 124,474 | 501,679 |
| Loss for the year | | - | - | - | - | - | - | - | (42,774) | - | (42,774) | (9,061) | (51,835) |
| Other comprehensive income | | | | | | | | | | | | | |
| Exchange difference arising during the year | | - | - | - | 10,442 | - | - | - | - | - | 10,442 | 8,246 | 18,688 |
| Total comprehensive loss for the year | | - | - | - | 10,442 | - | - | - | (42,774) | - | (32,332) | (815) | (33,147) |
| Placing of new shares | 38(b)(iv) | 20,800 | - | - | - | - | - | - | - | - | 20,800 | - | 20,800 |
| Share issuance expenses | | - | (881) | - | - | - | - | - | - | - | (881) | - | (881) |
| Extinguishment of convertible bonds | | - | - | - | - | - | - | (3,347) | 3,347 | - | - | - | - |
| Equity-settled share-based payments | 36 | - | - | - | - | 3,567 | - | - | - | - | 3,567 | - | 3,567 |
| Capital reduction | 38(b)(v) | (124,186) | - | 124,186 | - | - | - | - | - | - | - | - | - |
| Transfer | 38(b)(v) | - | - | (124,186) | - | - | - | - | 124,186 | - | - | - | - |
| Transfer to statutory reserve | | - | - | - | - | - | - | - | (250) | 250 | - | - | - |
| At 31 March 2012 | | 1,572 | 382,319[#] | -[#] | 22,709[#] | 22,130[#] | 1,500[#] | -[#] | (62,913)[#] | 1,042[#] | 368,359 | 123,659 | 492,018 |

[#] As at 31 March 2012, the aggregate amount of share premium and reserves was HK$366,787,000 (2011: HK$272,247,000).

The notes on pages 49 to 148 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

| | Note | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the year | | **(51,835)** | (28,280) |
| Adjustments for: | | | |
| Unrealised exchange loss | | **1,614** | – |
| Gain on disposal of subsidiaries | 9 | **–** | (8,804) |
| Income tax (credit)/expense | 8 | **(3,043)** | 267 |
| Equity-settled share-based payment expenses | 36 | **3,567** | 7,860 |
| Finance costs | 6 | **23,924** | 18,129 |
| Amortisation of prepaid lease payments | 16 | **551** | 480 |
| Amortisation of intangible assets | 18 | **19,062** | 9,116 |
| Depreciation of property, plant and equipment | 15 | **20,509** | 16,493 |
| Impairment loss on property, plant and equipment | 15 | **1,031** | – |
| Fair value change on derivative financial liabilities | 35 | **(7,400)** | (1,205) |
| Fair value change on derivative financial asset | 21 | **(19,630)** | – |
| Impairment loss on goodwill | 17 | **20,556** | – |
| Gain on extinguishment of convertible bonds | 34(i) | **–** | (1,268) |
| Loss on redemption of convertible note | 35 | **7,785** | – |
| Interest income, other than that from money-lending operation | 5 | **(1,574)** | (923) |
| Imputed interest on receivable | 5 | **(6,061)** | (3,326) |
| Loss on disposal of property, plant and equipment | | **–** | 337 |
| **Operating cash flows before working capital changes** | | **9,056** | 8,876 |
| Increase in inventories | | **(19,217)** | (7,285) |
| Decrease in trade receivables | | **2,604** | 8,180 |
| (Increase)/decrease in loans receivable | | **(2,941)** | 3,368 |
| (Increase)/decrease in prepayment, deposits and other receivables | | **(2,746)** | 71,515 |
| Increase in bank acceptance note payables | | **91,193** | 41,685 |
| Decrease in trade payables | | **(6,839)** | (3,245) |
| Increase/(decrease) in other payables | | **7,789** | (9,568) |
| **Cash generated from operations** | | **78,899** | 113,526 |
| Interest paid | | **(14,470)** | (9,461) |
| Income tax paid | | **(873)** | (1,968) |
| **Net cash generated from operating activities** | | **63,556** | 102,097 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received, other than that from money-lending operation | 5 | **1,574** | 923 |
| Deposit paid for purchase of property, plant and equipment | | **(13,616)** | (59,532) |
| Net cash inflow from disposal of subsidiaries | 9 | **–** | 2,400 |
| Purchase of property, plant and equipment | | **(63,605)** | (16,265) |
| Net cash outflow on acquisition of subsidiaries | 40 | **–** | (200,472) |
| Decrease in term deposits | | **–** | 29,000 |
| **Net cash (used in) investing activities** | | **(75,647)** | (243,946) |
| **Financing activities** | | | |
| Proceeds from issue of shares | | **20,800** | 190,355 |
| Share issuance expenses | | **(881)** | (3,404) |
| Increase in pledged bank deposits | | **(55,873)** | (29,179) |
| Repayment of payable for acquiring plant and equipment | | **–** | (64,772) |
| Proceeds from bank borrowings | | **72,352** | 31,562 |
| Proceeds from other loan | | **3,000** | – |
| Proceeds from issue of convertible redeemable notes | | **–** | 81,680 |
| Repayment of promissory note | | **–** | (40,000) |
| Proceeds from exercise of share options | | **–** | 5,928 |
| Proceeds from issuance of warrants | | **–** | 1,500 |
| Repayment of interest bearing loans | | **(44,306)** | (31,982) |
| Capital contribution by non-controlling interests | | **–** | 15,089 |
| **Net cash (used in)/generated from financing activities** | | **(4,908)** | 156,777 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(16,999)** | 14,928 |
| **Cash and cash equivalents at the beginning of the year** | | **24,605** | 9,081 |
| **Effect of foreign exchange rate changes** | | **332** | 596 |
| **Cash and cash equivalents at the end of the year** | 28 | **7,938** | 24,605 |

The notes on pages 49 to 148 form part of these financial statements.

## 1. GENERAL INFORMATION

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) STATEMENT OF COMPLIANCE

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

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

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

The Group incurred loss for the year ended 31 March 2012 of approximately HK$51,835,000 and as of that date, the Group's and the Company's current liabilities exceeded its current assets by HK$151,544,000 and HK$99,912,000 respectively. In addition, as detailed in note 35 to the financial statements, the Company received redemption notice on 17 November 2011 from the noteholder requesting for the redemption of the convertible note with original principal amount of RMB70,000,000 and its accreted portion, together with the accrued but unpaid interest. In accordance with the relevant terms and conditions of the note instrument of the convertible note, the said amount has been due for repayment since December 2011 and remained unsettled up to the date of approval of these financial statements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The directors of the Company have been taking active steps to improve the liquidity position of the Group. These steps included (1) in relation to the redemption of convertible note with original principal amount of RMB70,000,000 and its accreted portion, together with the accrued but unpaid interest, the Company had, subsequent to the reporting period, entered into a subscription agreement with an independent third party for the issuance of convertible bonds with a principal amount of HK$100,000,000 which the net proceed is strictly restricted to be used for the redemption of the said convertible note. This subscription agreement was approved by the Company's shareholders at the Company's special general meeting held on 13 June 2012. The subscription is yet to be completed up to the date of approval of these financial statements; (2) one of the substantial shareholders has confirmed his intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future; (3) the directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limit to, private placement, open offer or rights issue of new shares of the Company; and (4) the directors of the Company continue to take action to tighten cost controls over various operating expenses, with an aim to attaining profitable and positive cash flow operations.

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

The consolidated financial statements for the year ended 31 March 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand except for loss per share data. Hong Kong dollar is the Company's functional and the Group's presentation currency.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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



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

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries 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 (effective from 1 April 2010 onwards). Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

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

### (d) BUSINESS COMBINATIONS



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 the 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 values, except that:

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

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

- 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 note 2(r)(ii)); and

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) BUSINESS COMBINATIONS (Continued)

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

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

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.

Where 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 *Financial Instruments: Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) BUSINESS COMBINATIONS (Continued)

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 April 2010.



### (e) GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 2(d)) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) PROPERTY, PLANT AND EQUIPMENT

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

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating 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.

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

| | |
|---|---|
| Buildings | 5% |
| Plant and machinery | $6\ ^{2}/_{3}$% – 10% |
| Leasehold improvements | 10% or over the lease term whichever is shorter |
| Furniture and fixtures | 10% – 25% |
| Computer equipment | 10% – 25% |
| Motor vehicles | 10% – 25% |

Display gemstones are stated at cost less any identified impairment loss.

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

### (g) INTANGIBLE ASSETS

Intangible assets acquired in a business combination and with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses. 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.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

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

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

### (h) LEASED ASSETS

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) LEASED ASSETS (Continued)

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

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

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

#### *(ii) Operating lease charges*

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) IMPAIRMENT OF ASSETS

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

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

– For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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



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

– property, plant and equipment;

– prepaid lease payments;

– intangible assets;

– deposits for acquisition for property, plant and equipment; and

– goodwill.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) INVENTORIES

Inventories are carried at the lower of cost and net realisable value. Costs include cost of purchase (including taxes, transport and handling) net of trade discounts received and other costs incurred in bringing the inventories to their present location and condition, and are calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

### (k) TRADE AND OTHER RECEIVABLES



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

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

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

### (m) INTEREST-BEARING BORROWINGS

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) TRADE AND OTHER PAYABLES

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

### (o) CASH AND CASH EQUIVALENTS

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

### (p) CONVERTIBLE BONDS/NOTES

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### *(ii) Other convertible notes*

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

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

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

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

### (q) DERIVATIVE FINANCIAL INSTRUMENTS

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

### (r) EMPLOYEE BENEFITS

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) EMPLOYEE BENEFITS (Continued)

#### *(ii) Share-based payments*

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

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



#### *(iii) Termination benefits*

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

### (s) INCOME TAX

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) INCOME TAX (Continued)

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

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



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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) INCOME TAX (Continued)

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

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

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

  - the same taxable entity; or

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



### (t) PROVISION AND CONTINGENT LIABILITIES

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) PROVISION AND CONTINGENT LIABILITIES (Continued)

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

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

### (u) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sale of paper products, biodegradable products*



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

#### *(ii) Service income*

Service income is recognised when services are provided.

#### *(iii) Interest income from money-lending operation*

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

### (v) TRANSLATION OF FOREIGN CURRENCIES

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

### (w) BORROWING COSTS



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

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

### (x) DISCONTINUED OPERATIONS

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) DISCONTINUED OPERATIONS (Continued)

When an operation is classified as discontinued, a single amount is presented in the statement of comprehensive income, which comprises:

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

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

### (y) RELATED PARTIES

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (z) SEGMENT REPORTING

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

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

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

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

| | |
|---|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 |
| 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 |

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

### IMPROVEMENTS TO HKFRSs ISSUED IN 2010

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial instruments: Disclosures. The disclosures about the Group's and the Company's financial instruments in note 45 have conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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

### HKAS 24 RELATED PARTY DISCLOSURES (AS REVISED IN 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

The Group has not applied any new and revised standard or interpretation that have been issued but are not yet effective for the current accounting period (see note 48).

## 4. REVENUE

The principal activities of the Group are manufacturing and sales of paper products, money-lending business and biodegradable materials manufacturing business.

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

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Continuing operations | | |
| Sales of package and paper products | **238,937** | 288,237 |
| Sales of biodegradable products | **953** | – |
| Interest and handling fee income from money-lending operation | **1,330** | 733 |
| | **241,220** | 288,970 |

## 5. OTHER INCOME AND NET GAINS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| **Other income** | | |
| Interest income, other than that from money-lending operation | **1,574** | 923 |
| Imputed interest on receivable | **6,061** | 3,326 |
| Total interest income on financial assets not at fair value through profit or loss | **7,635** | 4,249 |
| Sundry income | **57** | 1,059 |
| | **7,692** | 5,308 |
| **Net gains** | | |
| Fair value change on derivative financial asset (note 21) | **19,630** | – |
| Fair value change on derivative financial liabilities (note 35) | **7,400** | 1,205 |
| Gain on extinguishment of convertible bonds (note 34(i)) | **–** | 1,268 |
| | **34,722** | 7,781 |

## 6. FINANCE COSTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| Interest on bank borrowings wholly repayable within five years | **8,994** | 7,469 |
| Interest on promissory notes | **–** | 1,995 |
| Imputed interest on convertible bonds (note 34) | **1,397** | 5,407 |
| Interest charged on bond payable | **3,091** | – |
| Interest charged on convertible note (note 35) | **10,442** | 3,258 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **23,924** | 18,129 |

## 7. LOSS BEFORE TAXATION

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

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Continuing operations | | |
| Auditor's remuneration | | |
| – Provision for the year | **1,421** | 1,562 |
| – (Over)-provision for previous year | **(69)** | – |
| Costs of inventories sold included in costs of sales | **217,721** | 262,012 |
| Amortisation of prepaid lease payments (note 16) | **551** | 480 |
| Amortisation of intangible assets (note 18) | **19,062** | 9,116 |
| Depreciation of property, plant and equipment (note 15) | **20,509** | 16,493 |
| Fair value change on derivative financial asset (note 21) | **(19,630)** | – |
| Fair value change on derivative financial liabilities (note 35) | **(7,400)** | (1,205) |
| (Gain) on extinguishment of convertible bonds (note 34(i)) | **–** | (1,268) |
| Loss on redemption of convertible note (note 35) | **7,785** | – |
| Impairment loss on goodwill (note 17) | **20,556** | – |
| Impairment loss on property, plant and equipment (note 15) | **1,031** | – |
| Loss on disposal of property, plant and equipment | **–** | 337 |
| Exchange loss | **1,539** | 1,927 |
| Minimum lease payments under operating leases in respect of leased premises | **3,833** | 2,315 |
| Staff costs including directors' emoluments | | |
| – Contributions to defined contribution retirement plan | **1,488** | 972 |
| – Equity-settled share-based payment expenses | **2,888** | 5,319 |
| – Salaries, wages and other benefits | **19,720** | 15,731 |
| | **24,096** | 22,022 |

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

### (a) TAXATION IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME REPRESENTS:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| Current tax – provision for current year: | | |
| – Hong Kong | **–** | – |
| – PRC | **816** | 1,231 |
| Current tax – under-provision in previous year: | | |
| – Hong Kong | **10** | – |
| – PRC | **62** | 982 |
| Deferred tax | | |
| – Credited to consolidated statement of comprehensive income during the year (note 32(a)) | **(3,931)** | (1,946) |
| | **(3,043)** | 267 |

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Subsidiaries located in the PRC are subject to the PRC Enterprise Income Tax at a rate of 25% (2011: 25%) on their assessable profits. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

### (b) RECONCILIATION BETWEEN TAX (CREDIT)/EXPENSE AND ACCOUNTING LOSS AT APPLICABLE TAX RATES:

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Loss before taxation | **(54,878)** | (36,225) |
| Tax at applicable tax rate | **(12,082)** | (6,801) |
| Tax effect of income not subject to tax | **–** | (1,864) |
| Tax effect of expenses not deductible for tax | **7,989** | 8,038 |
| Under provision in previous years | **72** | 982 |
| Tax effect of tax losses not recognised | **978** | 52 |
| Others | **–** | (140) |
| Tax (credit)/expense for the year | **(3,043)** | 267 |



## 9. DISCONTINUED OPERATIONS/DISPOSAL OF SUBSIDIARIES

### (a) DISPOSAL OF MCMANNERS MANAGEMENT LIMITED

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

### (b) DISPOSAL OF RIGHT GATEWAY LIMITED

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

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

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

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

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

### *(iii) Segment revenues and results*

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

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

### *(iv) Geographical information*

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

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

| | **2011** HK$'000 |
|---|---|
| Macau | 10 |
| PRC | – |
| Hong Kong (place of domicile) | 69 |
| | 79 |

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

### *(iv) Geographical information (Continued)*

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

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

## 10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company dealt with in the financial statements of the Company for the year ended 31 March 2012 was HK$28,802,000 (2011: HK$27,489,000).



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

### (a) DIRECTORS' EMOLUMENTS

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees | **1,725** | 1,630 |
| Salaries, allowances and benefits | **408** | 337 |
| Employee share options benefits | **-** | 2,374 |
| | **2,133** | 4,341 |

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

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

**2012**

| | Fees HK$'000 | Salaries, allowance and benefits HK$'000 | Equity-settled share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Wong Kam Leong | 360 | 335 | - | 695 |
| Wu Shaohong (Appointed on 15 December 2011) | 105 | - | - | 105 |
| Wu Bingxiang | 293 | 15 | - | 308 |
| Hu Dongguang | 487 | 58 | - | 545 |
| Guo Wanda | 240 | - | - | 240 |
| **Non-executive director** | | | | |
| Zhang Chi (Resigned on 29 April 2011) | - | - | - | - |
| **Independent non-executive directors** | | | | |
| Ng Kwok Chu, Winfield | 80 | - | - | 80 |
| Ng Chau Tung, Robert | 80 | - | - | 80 |
| Tse Ching Leung | 80 | - | - | 80 |
| Wang Qingyi | - | - | - | - |
| | 1,725 | 408 | - | 2,133 |

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

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

2011

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

During the year, no emoluments were paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. (2011: Nil). None of the directors waived any remuneration during both years.

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

### (b) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2011: two) directors whose emoluments are reflected in the analysis presented above.

The emoluments paid and payable to the remaining three (2011: three) individuals for the year ended 31 March 2012 are as follows:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Salaries, bonus and allowances | **284** | 810 |
| Employee share options benefits | **2,888** | 3,475 |
| Retirement scheme contributions | **–** | 48 |
| | **3,172** | 4,333 |

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

| | **Number of individuals** | |
|---|---|---|
| | **2012** | 2011 |
| Nil to HK$1,000,000 | **1** | – |
| HK$1,000,001 – HK$1,500,000 | **2** | 3 |
| | **3** | 3 |

## 12. DIVIDENDS

No dividend has been paid, declared or recommended for payment by the directors of the Company during the year or since the end of reporting period (2011: Nil).

## 13. LOSS PER SHARE

### FOR CONTINUING AND DISCONTINUED OPERATIONS

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Loss attributable to owners of the Company | **(42,774)** | (26,870) |

| | **2012**<br>**'000** | 2011<br>'000<br>(Restated) |
|---|---|---|
| Weighted average number of ordinary shares in issue (note) | **134,607** | 76,079 |

The basic and diluted loss per share are the same for years ended 31 March 2012 and 2011 respectively, as the share options, warrants and convertible note/bonds outstanding during the years are anti-dilutive.

### FROM CONTINUING OPERATIONS

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Loss attributable to owners of the Company | **(42,774)** | (26,870) |
| Less: Profit for the year from discontinued operations | **–** | 8,212 |
| Loss for the purposes of basic loss per share from continuing operations | **(42,774)** | (35,082) |

## 13. LOSS PER SHARE (Continued)

### FROM CONTINUING OPERATIONS (Continued)

| | **2012 '000** | 2011 '000 (Restated) |
|---|---|---|
| Weighted average number of ordinary shares in issue (note) | **134,607** | 76,079 |

The basic and diluted loss per share from continuing operations are the same for the years ended 31 March 2012 and 2011 respectively, as the share options, warrants and convertible note/bonds outstanding during the years are anti-dilutive.

### FROM DISCONTINUED OPERATIONS

Basic earnings per share from discontinued operations for the year ended 31 March 2011 is HK10.79 cents (restated) per share based on the profit for the year 2011 from the discontinued operations of HK$8,212,000 and the denominators detailed above.

Diluted earnings per share from discontinued operations for the year ended 31 March 2011 is HK10.63 cents (restated) per share based on the profit for the year 2011 from the discontinued operations of HK$8,212,000 and weighted average number of shares as detailed below:

| | 2011 '000 (Restated) |
|---|---|
| Weighted average number of ordinary shares in issue (note) | 76,079 |
| Effect of diluted potential ordinary shares from: | |
| – share options issued by the Company | 222 |
| – warrants issued by the Company | 943 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share (note) | 77,244 |

Note: The weighted average number of ordinary shares for the purposes of calculating basic and diluted earning/loss per share has been retrospectively adjusted for the effect of the share consolidation effective on 6 March 2012 (note 38(b)(v)).

## 14. SEGMENT INFORMATION

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

The Group has the following continuing operating segments:

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

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

(iii) Money-lending business.

In prior years, the Group was involved in the following operating segments which were discontinued during the year ended 31 March 2011. The segment information does not include any amounts for these discontinued operations, which are described in more details in note 9.

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

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

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

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

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Package and paper products | **238,937** | 288,237 |
| Biodegradable products | **953** | – |
| Interest and handling fee income from money-lending operation | **1,330** | 733 |
| | **241,220** | 288,970 |

## 14. SEGMENT INFORMATION (Continued)

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

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

Segment assets include all non-current and current assets with exception of available-for-sale financial assets and other corporate assets. Segment liabilities include all current and non-current liabilities with the exception of convertible bonds, convertible note, derivative financial liabilities, bond payable, provision for taxation, deferred tax liabilities and corporate liabilities.

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

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2012 and 2011 is set out below.



**Year ended 31 March 2012**

**Continuing operations**

| | Paper products HK$'000 | Biodegradable products HK$'000 | Money-lending HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 238,937 | 953 | 1,330 | 241,220 |
| **Segment results** | 8,000 | (26,323) | (1,897) | (20,220) |
| **Segment assets** | 519,129 | 440,904 | 6,139 | 966,172 |
| **Segment liabilities** | 274,855 | 50,776 | 249 | 325,880 |
| **Other information** | | | | |
| Interest income | 1,574 | - | - | 1,574 |
| Interest expense | 8,966 | - | 28 | 8,994 |
| Depreciation and amortisation | 19,458 | 20,551 | 2 | 40,011 |
| Capital expenditure | 58,267 | 15,131 | - | 73,398 |
| Impairment loss on property, plant and equipment | - | - | 1,031 | 1,031 |
| Impairment loss on goodwill | 20,556 | - | - | 20,556 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 14. SEGMENT INFORMATION (Continued)

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

Year ended 31 March 2011

Continuing operations

| | Paper products HK$'000 | Biodegradable products HK$'000 | Money-lending HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 288,237 | – | 733 | 288,970 |
| **Segment results** | 12,475 | (10,594) | (689) | 1,192 |
| **Segment assets** | 436,356 | 411,463 | 4,743 | 852,562 |
| **Segment liabilities** | 154,886 | 50,779 | 103 | 205,768 |
| **Other information** | | | | |
| Interest income | 550 | – | 373 | 923 |
| Interest expense | 7,469 | – | – | 7,469 |
| Depreciation and amortisation | 15,956 | 9,348 | 1 | 25,305 |
| Capital expenditure | 72,025 | 3,412 | – | 75,437 |

## 14. SEGMENT INFORMATION (Continued)

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| **Revenue** | | |
| Total reportable segment revenue | **241,220** | 288,970 |
| Consolidated revenue | **241,220** | 288,970 |
| **Loss** | | |
| Total reportable segment (loss)/profit derived from the Group's external customers | **(20,220)** | 1,192 |
| Finance costs | **(23,924)** | (18,129) |
| Impairment loss on goodwill | **(20,556)** | – |
| Other income | **34,722** | 7,781 |
| Unallocated corporate expenses | **(24,900)** | (27,069) |
| Consolidated loss before taxation | **(54,878)** | (36,225) |
| **Assets** | | |
| Total reportable segment assets | **966,172** | 852,562 |
| Available-for-sale financial assets | **180** | 180 |
| Unallocated corporate assets | **4,911** | 13,493 |
| Consolidated total assets | **971,263** | 866,235 |
| **Liabilities** | | |
| Total reportable segment liabilities | **325,880** | 205,768 |
| Provision for taxation | **899** | 884 |
| Deferred tax liabilities | **47,890** | 50,022 |
| Convertible bonds | **–** | 16,603 |
| Convertible note | **–** | 36,135 |
| Derivative financial liabilities | **–** | 49,268 |
| Bond payable | **95,459** | – |
| Unallocated corporate liabilities | **9,117** | 5,876 |
| Consolidated total liabilities | **479,245** | 364,556 |

## 14. SEGMENT INFORMATION (Continued)

### (c) GEOGRAPHICAL INFORMATION

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

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| PRC | **239,890** | 288,237 |
| Hong Kong (place of domicile) | **1,330** | 733 |
| | **241,220** | 288,970 |

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Continuing operations | | |
| PRC | **670,864** | 653,409 |
| Hong Kong | **531** | 1,691 |
| | **671,395** | 655,100 |

### (d) INFORMATION ABOUT MAJOR CUSTOMERS

During the year ended 31 March 2012, one customer accounted for approximately HK$28,210,000 (2011: HK$41,179,000) of the Group's revenue, which was attributed to the paper products segment. Save as aforesaid, no other external customers accounted for 10% or more of the Group's revenue for the years ended 31 March 2012 or 2011.

## 15. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings HK$'000 | Plant and machinery HK$'000 | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Computer equipment HK$'000 | Motor vehicles HK$'000 | Display gemstones HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 April 2010 | 44,133 | 138,666 | 2,736 | 1,320 | 2,687 | 250 | 3,996 | – | 193,788 |
| Acquisition of subsidiaries (note 40) | – | 3,836 | – | – | – | 321 | – | – | 4,157 |
| Derecognised on disposal of subsidiaries | – | – | (15) | (749) | (2,625) | – | – | – | (3,389) |
| Additions | – | 8,638 | 540 | 263 | – | 1,761 | – | 5,063 | 16,265 |
| Disposal | – | – | (337) | – | – | – | – | – | (337) |
| Exchange realignment | 1,435 | 4,812 | 34 | 10 | 3 | 58 | – | – | 6,352 |
| At 31 March 2011 | 45,568 | 155,952 | 2,958 | 844 | 65 | 2,390 | 3,996 | 5,063 | 216,836 |
| At 1 April 2011 | 45,568 | 155,952 | 2,958 | 844 | 65 | 2,390 | 3,996 | 5,063 | 216,836 |
| Additions | – | 58,508 | 1,732 | 429 | 75 | 5 | – | 703 | 61,452 |
| Transfer | – | 1,767 | 3,518 | – | 538 | – | – | (5,823) | – |
| Exchange realignment | 1,695 | 6,613 | 254 | 23 | 10 | 89 | – | 106 | 8,790 |
| **At 31 March 2012** | **47,263** | **222,840** | **8,462** | **1,296** | **688** | **2,484** | **3,996** | **49** | **287,078** |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| At 1 April 2010 | 1,909 | 12,069 | 1,670 | 1,133 | 2,622 | 14 | 2,465 | – | 21,882 |
| Charges for the year | 2,152 | 13,454 | 769 | 43 | 33 | 42 | – | – | 16,493 |
| Derecognition on disposal of subsidiaries | – | – | (15) | (749) | (2,602) | – | – | – | (3,366) |
| Exchange realignment | 114 | 718 | 21 | 1 | – | 1 | – | – | 855 |
| At 31 March 2011 | 4,175 | 26,241 | 2,445 | 428 | 53 | 57 | 2,465 | – | 35,864 |
| At 1 April 2011 | 4,175 | 26,241 | 2,445 | 428 | 53 | 57 | 2,465 | – | 35,864 |
| Charges for the year | 2,191 | 16,975 | 742 | 109 | 45 | 447 | – | – | 20,509 |
| Impairment | – | – | – | – | – | – | 1,031 | – | 1,031 |
| Exchange realignment | 190 | 1,238 | 50 | 3 | 1 | 10 | – | – | 1,492 |
| **At 31 March 2012** | **6,556** | **44,454** | **3,237** | **540** | **99** | **514** | **3,496** | **-** | **58,896** |
| **Carrying amount** | | | | | | | | | |
| **At 31 March 2012** | **40,707** | **178,386** | **5,225** | **756** | **589** | **1,970** | **500** | **49** | **228,182** |
| At 31 March 2011 | 41,393 | 129,711 | 513 | 416 | 12 | 2,333 | 1,531 | 5,063 | 180,972 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

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

Notes:

(i) As of 31 March 2012, the Group's buildings with a total carrying amount of approximately HK$28,137,000 (2011: HK$28,594,000) were pledged as security against the Group's bank loans (see note 31).

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

(iii) During the year, impairment losses of approximately HK$1,031,000 were recognised in respect of display gemstones which were attributed to the money lending segment as a result of impairment assessment. The recoverable amount was based on the display gemstone's fair values less costs to sell, determined by reference to the recent market price. The impairment losses have been included in the "administrative expense" line item in the consolidated statement of comprehensive income.

## 16. PREPAID LEASE PAYMENTS

### The Group

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2010 | 19,890 |
| Exchange realignment | 630 |
| At 31 March 2011 | 20,520 |
| At 1 April 2011 | 20,520 |
| Exchange realignment | 781 |
| At 31 March 2012 | 21,301 |
| **Accumulated amortisation** | |
| At 1 April 2010 | 469 |
| Amortisation for the year | 480 |
| Exchange realignment | 10 |
| At 31 March 2011 | 959 |
| At 1 April 2011 | 959 |
| Amortisation for the year | 551 |
| Exchange realignment | 62 |
| **At 31 March 2012** | **1,572** |
| **Carrying amount** | |
| **At 31 March 2012** | **19,729** |
| At 31 March 2011 | 19,561 |

## 16. PREPAID LEASE PAYMENTS (Continued)

**The Group**

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current assets included in other receivables (note 26(a)) | **560** | 480 |
| Non-current assets | **19,169** | 19,081 |
| | **19,729** | 19,561 |

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

As of 31 March 2012 and 2011, all of the Group's land use rights were pledged as security against bank loans (note 31).

## 17. GOODWILL

**The Group**

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2010 | 144,343 |
| Acquisition of subsidiaries (note 40) | 86,679 |
| Disposal of subsidiaries | (63,376) |
| Adjustment arising from contingent consideration (note 17(a)) | (22,000) |
| Exchange realignment | 5,424 |
| At 31 March 2011 | 151,070 |
| At 1 April 2011 | 151,070 |
| Adjustment arising from contingent consideration (note 17(a)) | (19,456) |
| Exchange realignment | 5,667 |
| **At 31 March 2012** | **137,281** |
| **Impairment** | |
| At 1 April 2010 | 63,376 |
| Eliminated on disposal of subsidiaries | (63,376) |
| At 31 March 2011 | – |
| At 1 April 2011 | – |
| Impairment loss recognised (note 17(b)) | 20,556 |
| **At 31 March 2012** | **20,556** |
| **Carrying amount** | |
| **At 31 March 2012** | **116,725** |
| At 31 March 2011 | 151,070 |

## 17. GOODWILL (Continued)

### (a) ADJUSTMENT ON GOODWILL

The amounts represented adjustments on the cost of acquisition of the entire equity interest in Mega Bright Investment Development Limited (the "Mega Bright Acquisition") in relation to the profit guarantee given by the vendor.

***2011 adjustment***

The vendor of the Mega Bright Acquisition has undertaken to provide profit guarantees to a 51% owned subsidiary namely Jining Gangning Paper Co., Ltd (the "Jining Gangning") which shall have a profit after taxation of not less than RMB60 million for each of the two years ended 31 December 2010 and 31 December 2011. If Jining Gangning failed to meet the aforesaid profit guarantees for any of the two years ended 31 December 2010 and 31 December 2011, the vendor shall pay the Group a compensation equivalent to 51% of the shortfall for that year.

The audited profits after tax of Jining Gangning for the financial year ended 31 December 2010 was approximately RMB4,320,000. Since the profit guarantee was not met, the vendor is obliged to compensate the Group an amount equals to 51% of the shortfall which was approximately RMB28,397,000.

Pursuant to a confirmation letter dated 31 March 2011, the Group agreed that an amount of HK$22,000,000 shall be compensated by way of cancellation of convertible bonds with principal amount of HK$22,000,000 (note 34(i)) held by the vendor. The remaining balance of shortfall was aggregated into the profit guarantee without interest, for the financial year ended 31 December 2011.

***2012 adjustment***

The audited profits after tax of Jining Gangning for the financial year ended 31 December 2011 was approximately RMB2,026,000. Since the profit guarantee was not met, the vendor is obliged to compensate the Group an amount equals to 51% of the shortfall which was RMB29,567,000. Pursuant to a confirmation letter dated 29 March 2012, the Group agreed that an amount of HK$18,000,000 of the shortfall of the profit guarantee shall be compensated by set off against the bonds liabilities due to the vendor (note 34(ii)).

The total shortfall of profit guarantee for both financial years ended 31 December 2010 and 2011 was approximately RMB57,964,000 (equivalent to approximately HK$71,602,000) and the total remaining shortfall of profit guarantee, after considered the compensation of HK$22,000,000 and HK$18,000,000 for the financial years ended 31 December 2010 and 2011 respectively, was approximately HK$31,602,000.

## 17. GOODWILL (Continued)

### (a) ADJUSTMENT ON GOODWILL (Continued)

***2012 adjustment (Continued)***

On 29 March 2012, the directors of the Company was under negotiation with the vendor for the remaining balance of the shortfall of the profit guarantee as the Jining Gangning profits after tax for the financial years ended 31 December 2010 and 2011 were affected by the increase in the price of raw materials due to the reduction and withdrawal of government subsidies, the reduction and withdrawal of purchase rebate, the increase in price of electricity and the cost of steam generation (the "Profit Reduction Factors"). The Company and the vendor considered that the Profit Reduction Factors are force majeure events. The directors of the Company estimated that the Profit Reduction Factors, together, causing a reduction in aggregate profit after taxation of approximately RMB47,851,000, of which, 51% of the sum, amounting to approximately RMB24,404,000 (equivalent to approximately HK$30,146,000) would be attributable to the Group (the "Profit Reduction"). As a result, the directors of the Company considered that the total remaining shortfall of profit guarantee of approximately HK$31,602,000 after deduction of the Profit Reduction of approximately HK$30,146,000 was approximately HK$1,456,000.

Adjustment on goodwill for current year of HK$19,456,000 represents current year compensation of shortfall of profit guarantee of HK$18,000,000 and the estimated remaining shortfall of HK$1,456,000.

Subsequent to the end of the reporting period on 28 June 2012, the Group has entered into a confirmation letter with the vendor and mutually agreed the amount of Profit Reduction at approximately RMB24,404,000 (equivalent to approximately HK$30,146,000) and further agreed that the total remaining shortfall of profit guarantee of approximately HK$31,602,000 will be set off fully against the Profit Reduction. The remaining balance of approximately HK$1,456,000 shall be payable by the vendor within one month from the date of the confirmation letter.

### (b) IMPAIRMENT TESTS FOR GOODWILL

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

– Paper products operation
– Biodegradable products operation
– Money-lending operation

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

| | | Group | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **HK$'000** | HK$'000 |
| Paper products operation | **(i)** | **24,515** | 62,214 |
| Biodegradable products operation | **(i)** | **92,120** | 88,766 |
| Money-lending operation | **(ii)** | **90** | 90 |
| | | **116,725** | 151,070 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 17. GOODWILL (Continued)

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

#### *(i) Paper products operation and biodegradable products operation*

The recoverable amounts of these CGU are determined based on value in use calculations and with reference to valuation reports prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The estimated growth rate for the paper products segment and biodegradable products segment are based on the historical Consumer Price Index of the PRC for which the directors considered does not exceed the long-term average growth rate for such industry.

Key assumptions used for value-in-use calculations are as follows:

| | Biodegradable products operation | | Paper products operation | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Growth rate | **3%** | 3% | **3%** | 3% |
| Discount rate | **25.73%** | 26.00% | **22.00%** | 20.35% |

Weighted average cost of capital has been adopted to estimate the discount rates and to arrive at the opportunity cost of capital of equity funds (i.e. cost of equity). The market-derived discount rate by the Capital Asset Pricing Model by using market data of other listed companies with a similar business.

As a result of the reduction in the expected revenue of the paper products operation since the actual revenue did not turn out as previously expected, the carrying amount of the CGU relating to paper products operation was determined to be higher than its recoverable amount and an impairment loss of HK$20,556,000 (2011: HK$Nil) was recognised. The impairment loss was allocated fully to goodwill and is presented on the face of consolidated statement of comprehensive income.

#### *(ii) Money-lending operation*

The directors considered the recoverable amount of the CGU of money-lending operation was above the carrying amount of the CGU for both years.

## 18. INTANGIBLE ASSETS

**The Group**

| | HK$'000 |
|---|---|
| **Cost:** | |
| Additions through acquisition of a subsidiary (note 40) | 247,675 |
| Exchange realignment | 6,105 |
| At 31 March 2011 and 1 April 2011 | 253,780 |
| Exchange realignment | 9,439 |
| At 31 March 2012 | 263,219 |
| **Accumulated amortisation:** | |
| Charge for the year | 9,116 |
| Exchange realignment | 219 |
| At 31 March 2011 and 1 April 2011 | 9,335 |
| Charge for the year | 19,062 |
| Exchange realignment | 651 |
| At 31 March 2012 | 29,048 |
| **Carrying amount** | |
| At 31 March 2012 | 234,171 |
| At 31 March 2011 | 244,445 |

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

These patents have finite useful lives and are amortised on a straight-line basis over 10 to 15 years, being the term of the patent use right or the operating period as per business license of the relevant subsidiaries, whichever is a shorter period. The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of comprehensive income. The two patents' carrying amounts will be amortised over the remaining useful lives of 14 years and 9 years respectively (2011: 15 years and 10 years).

## 18. INTANGIBLE ASSETS (Continued)

### IMPAIRMENT TESTS FOR INTANGIBLE ASSETS

The recoverable amounts of the intangible assets are determined based on value in use calculations and with reference to valuation reports prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3% (2011: 3%) which is based on the historical Consumer Price Index of the PRC for which the directors considered does not exceed the long-term average growth rate for such industry. The cash flows are discounted using a discount rate of 27.12% (2011: 26.97%). The discount rate are pre-tax and reflect specific risks relating to the relevant industry.

## 19. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Unlisted investments, at cost | **1** | 1 |
| Less: Accumulated impairment losses | **–** | – |
| | **1** | 1 |

The following is a list of the Group's principal subsidiaries as of 31 March 2012:

| Name | Place of incorporation and operation | Particulars of issued share capital/ registered capital | Proportion of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Cherry Oasis (Far East) Limited (iv) | Hong Kong | 1 ordinary share of HK$1 | 100% | – | Investment holding |
| Success Finance Limited (iv) | Hong Kong | 55,000,000 ordinary shares of HK$1 each | – | 100% | Money lending business |
| Glory Smile Enterprises Limited (iv) | British Virgin Islands | 1 ordinary share of US$1 | 100% | – | Investment holding |
| Mega Bright Investment Development Limited (iv) | Hong Kong | 1 ordinary share of US$1 | – | 100% | Investment holding |

## 19. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation and operation | Particulars of issued share capital/ registered capital | Proportion of equity interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Jining Gangning Paper Company Limited (ii) | People's Republic of China ("PRC") | Registered capital of US$20,947,600 | – | 51% | Manufacturing, processing and sales of package and other paper products |
| Fast Rise Development Limited (iv) | British Virgin Islands | 1 ordinary share of US$ 1 | 100% | – | Investment holding |
| Ever Stable Holdings Limited (iv) | British Virgin Islands | 100 ordinary shares of US$ 1 each | – | 100% | Investment holding |
| World Champion Investment Limited (iv) | Hong Kong | 1 ordinary share of HK$ 1 | – | 100% | Investment holding |
| Dongguan Jiu He Bioplastics Company Limited (ii) | PRC | Paid up capital of US$3,440,474 | – | 60% | Development, production and sales of biodegradable resin and related products |
| Zhongshan Jiu He Bioplastics Company Limited (iii) | PRC | Paid up capital of US$1,924,653 | – | 60% | Development, production and sales of biodegradable resin and related products |

Notes:

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

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

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

(iv) These companies are registered as limited liability companies under rules and regulations of their respective countries of incorporation.

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| **Non-current** | | |
| Club membership, at cost | **180** | 180 |

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

## 21. DERIVATIVE FINANCIAL ASSET

The derivative financial asset of the Group as at 31 March 2012 represents the profit guarantee (the "Profit Guarantee") provided by the vendor to the Group in respect of Ever Stable Acquisition. Details on the Profit Guarantee are included in note 40 to the financial statements.

The Profit Guarantee represents a right to the return of previously transferred consideration for Ever Stable Acquisition when the specified conditions are met and hence constitutes a kind of contingent consideration arrangement to be accounted for as a financial asset at fair value through profit or loss in accordance with HKFRS 3 (Revised) and HKAS 39. The fair value of the Profit Guarantee as at 31 March 2012 was determined to be approximately HK$19,630,000 by reference to a valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. The valuation is based on financial budget plans approved by management for 2012, 2013 and 2014. Accordingly, a fair value gain on the derivative financial asset of HK$19,630,000 (2011: HK$Nil) was recognised in profit or loss during the year ended 31 March 2012.

## 22. DEPOSIT FOR ACQUISITION FOR PROPERTY, PLANT AND EQUIPMENT

Deposit of HK$73,148,000 (2011: HK$59,532,000) represents the deposit paid by the Company's subsidiaries for the acquisition of land in Jining, Shandong Province for expansion of its paper manufacturing business and acquisition of plant and equipment for the biodegradable manufacturing business in Zhongshan, Guangdong Province, PRC.

## 23. LOANS RECEIVABLE

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Secured loans receivable | **284** | – |
| Unsecured loans receivable | **5,356** | 3,195 |
| | **5,640** | 3,195 |
| Less: Allowance for impairment | **(160)** | (656) |
| | **5,480** | 2,539 |

At 31 March 2012, the Group holds the title of certain market securities with fair value of HK$211,200 (2011: HK$459,000) as collaterals for the secured loans receivable. The Group has absolute right to dispose those securities for repayment of the loan if the borrowers default payment.

### (a) MATURITY ANALYSIS

The loans receivable at the end of the reporting period carry effective interest ranging from 12.68% to 38% (2011: 6.17% to 50%) per annum and are analysed by the remaining periods to their contractual maturity dates as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Repayable: | | |
| – On demand | **1,027** | 839 |
| – Within three months | **836** | 177 |
| – In three to six months | **51** | 300 |
| – In six months to one year | **3,319** | 1,223 |
| – In one to two years | **247** | – |
| Total | **5,480** | 2,539 |
| Amount classified as current assets | **(5,233)** | (2,539) |
| Amount classified as non-current assets | **247** | – |

## 23. LOANS RECEIVABLE (Continued)

### (b) IMPAIRMENT OF LOANS RECEIVABLE

Loans receivable of HK$160,000 that are determined to be individually impaired as at 31 March 2012 (2011: HK$656,000) relates to several independent borrowers who have defaulted in payments.

Movements in the allowance for impairment are as follows:

| | Group | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| At beginning of year | **656** | 656 |
| Loans receivable written off | **(496)** | – |
| At end of year | **160** | 656 |

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



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

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

| | Group | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| Past due but not impaired: | | |
| – Less than three months | **622** | 298 |
| – Over 1 year | **405** | 541 |
| | **1,027** | 839 |
| Neither past due nor impaired | **4,453** | 1,700 |
| | **5,480** | 2,539 |

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

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

## 24. INVENTORIES

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Raw materials | **21,646** | 15,540 |
| Work-in-progress | **1,921** | 2,320 |
| Finished goods | **16,747** | 3,237 |
| | **40,314** | 21,097 |

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Carrying amount of inventories sold | **217,721** | 262,012 |

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

## 25. TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Accounts receivable | **6,719** | 8,460 |
| Bank acceptance notes receivable | **2,471** | 3,334 |
| Less: Allowance for impairment | **–** | – |
| | **9,190** | 11,794 |

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

## 25. TRADE RECEIVABLES (Continued)

### (a) AGE ANALYSIS

The ageing analysis of trade receivables (net of allowance for doubtful debts) as of the end of the reporting period is as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within three months | **8,687** | 11,268 |
| Over three months but within six months | **273** | 473 |
| Over six months but within one year | **73** | 40 |
| Over one year but within two years | **157** | 13 |
| | **9,190** | 11,794 |

Trade debtors are due within one to three months from the date of billing.



### (b) IMPAIRMENT OF TRADE RECEIVABLES

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

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **–** | 3,041 |
| Derecognised on disposal of subsidiaries | **–** | (3,041) |
| At end of year | **–** | – |

## 25. TRADE RECEIVABLES (Continued)

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

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Past due but not impaired: | | |
| – Less than three months past due | **344** | 345 |
| – Over three months but within six months past due | **191** | 304 |
| – Over six months past due | **73** | 33 |
| – Over 1 year past due | **157** | 13 |
| | **765** | 695 |
| Neither past due nor impaired | **8,425** | 11,099 |
| | **9,190** | 11,794 |

Included in the Group's trade receivables as at 31 March 2012 are debtors relate to a number of independent customers that have a good track record with the Group with an aggregate carrying amount of HK$765,000 (2011: HK$695,000) which are past due but not impaired at the end of the reporting period, as the directors have assessed these debtors to be recoverable based on their settlement records. The Group does not hold any collateral over these balances.

## 26. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Prepayment, deposits and other receivables (note 26 (a)) | **61,394** | 51,567 |
| Receivable from vendor of Ever Stable Acquisition (note 26 (b)) | **52,559** | 53,499 |
| Contingent consideration receivable (note 17 (a)) | **1,456** | – |
| | **115,409** | 105,066 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

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

Notes:

(a) Prepayment, deposits and other receivables represents:

| | Group | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| Prepayment, deposits and other receivables | | |
| – Current portion of prepaid lease payment (note 16) | **560** | 480 |
| – Deposits for purchases | **55,112** | 49,256 |
| – Deposits for rental and utilities | **1,209** | 1,166 |
| – Prepayment | **1,080** | 578 |
| – Other receivables | **3,433** | 87 |
| | **61,394** | 51,567 |

| | Company | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| Prepayment, deposits and other receivables | | |
| – Prepayment | **33** | – |
| – Other receivables | **21** | 5 |
| | **54** | 5 |

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

(b) As disclosed in note 40, receivable from the vendor of the Ever Stable Acquisition arose as a result of the vendor's undertaking as shareholder of Ever Stable to guarantee and procure up to 60% of the proposed aggregate paid-up capital of Dongguan Jiu He and Zhongshan Jiu He of not less than US$17,000,000 on or before 30 June 2013. As of 31 March 2012, the vendor of Ever Stable Acquisition has injected US$3,423,000 (2011: US$2,526,000) (approximately equivalent to HK$26,659,000 (2011: HK$19,659,000)) into Dongguan Jiu He and Zhongshan Jiu He. Accordingly, the vendor is committed to inject an additional amount of US$6,777,000 (approximately equivalent to HK$52,559,000) to the capital of Dongguan Jiu He and Zhongshan Jiu He in aggregate (2011: HK$53,499,000).

## 27. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE (TO) A SUBSIDIARY

### (a) AMOUNTS DUE FROM SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Amounts due from subsidiaries | **499,624** | 501,271 |
| Less: Impairment loss | **–** | – |
| | **499,624** | 501,271 |

Amounts due from subsidiaries are unsecured, non-interest bearing and not repayable within one year. In the opinion of the directors, these loans are considered as quasi-equity loans to the subsidiaries.

**(b)** Amount due to a subsidiary is unsecured and non-interest bearing. The amount is not repayable within one year.



## 28. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at banks and in hand | **7,938** | 24,605 | **2,675** | 12,587 |

At the end of the reporting period, the cash and bank balances of the Group, which are denominated in Renminbi ("RMB"), amounted to approximately HK$1,795,000 (2011: HK$10,518,000). RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The interest rates on the cash at bank and deposits with banks ranged from 0.01% to 3.30% (2011: 0.36% to 1.98%) per annum.

## 29. TRADE PAYABLES AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Trade payables | **12,165** | 19,004 |
| Other payables | | |
| – Accruals | **20,725** | 11,711 |
| – Other payables | **7,549** | 12,582 |
| – Deposits received | **1,271** | 2,222 |
| – Payable for acquisition of property, plant and equipment | **3,857** | 6,010 |
| – Amount due to non-controlling interests | **47,876** | 44,159 |
| – Amount due to a director | **1,176** | 134 |
| | **82,454** | 76,818 |

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Other payables | | |
| – Accruals | **4,182** | 1,248 |
| – Other payables | **-** | 1,081 |
| | **4,182** | 2,329 |

Notes:

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

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

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within three months | **4,796** | 16,393 |
| Over three months but within six months | **5,777** | 1,302 |
| Over six months but within one year | **1,041** | 1,028 |
| Over one year but within two years | **551** | 281 |
| | **12,165** | 19,004 |

## 30. PLEDGED BANK DEPOSITS AND BANK ACCEPTANCE NOTE PAYABLES

As at 31 March 2012, note payables represented bank acceptance notes issued by the Group with maturity within six months. It was secured by the Group's pledged deposits of HK$101,727,000 (2011: HK$45,854,000) and the guarantees issued by a customer and certain independent third parties. The pledged bank deposits will be released upon the settlement of relevant bank acceptance note payables.

## 31. INTEREST-BEARING LOANS

| | Group | | | |
|---|---|---|---|---|
| | **Effective interest rate** | **2012 HK$000** | Effective interest rate | 2011 HK$'000 |
| Entrustment loan (note 31(i)) | **23.14%** | **7,180** | 23.14% | 18,755 |
| Unsecured bank loan (note 31(ii)) | **7.57% to 13.94%** | **47,559** | 11.62% | 3,573 |
| Secured bank loans (note 31(iii)) | **11.74%** | **25,941** | 5.37% to 9.88% | 27,989 |
| Unsecured other loan (note 31(iv)) | **24%** | **3,000** | – | – |
| | | **83,680** | | 50,317 |
| Carrying amount repayable: | | | | |
| – within 1 year | | **83,680** | | 43,395 |
| – after 1 year but within 2 years | | **-** | | 6,922 |
| Total | | **83,680** | | 50,317 |
| Amount classified as current liabilities | | **(83,680)** | | (43,395) |
| Amount classified as non-current liabilities | | **-** | | 6,922 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 31. INTEREST-BEARING LOANS (Continued)

| | Company | | | |
|---|---|---|---|---|
| | **Effective interest rate** | **2012 HK$000** | Effective interest rate | 2011 HK$'000 |
| Unsecured other loan (note 31(iv)) | **24%** | **3,000** | – | – |
| Carrying amount repayable: | | | | |
| – within 1 year | | **3,000** | | – |
| – after 1 year but within 2 years | | **-** | | – |
| – after 2 years but within 5 years | | **-** | | – |
| Total | | **3,000** | | – |
| Amount classified as current liabilities | | **(3,000)** | | – |
| Amount classified as non-current liabilities | | **-** | | – |



Notes:

(i) The entrustment loan granted to the Group is secured by a charge over the same amount of fund placed with the bank by an independent third party of the Group and repayable within 3 years from 28 September 2009.

(ii) The unsecured bank loan was guaranteed by a customer and/or an independent third party/parties.

(iii) As at 31 March 2012, the secured bank loans are secured by legal charges over the Group's prepaid lease payments (note 16) with an aggregate carrying amount of HK$19,729,000 (2011: HK$19,561,000) and buildings (note 15) with an aggregate carrying amount of HK$28,137,000 (2011: HK$28,594,000).

(iv) The unsecured other loan granted to the Company is guaranteed by a director of the Company.

## 32. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

### (a) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED:

The components of deferred tax liabilities recognised at 31 March 2012 and the movements during the years are as follows:

| | Note | Property, plant and equipment HK$'000 | Prepaid lease payment HK$'000 | Intangible assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2010 | | 1,365 | 69 | – | 1,434 |
| Acquisition of subsidiaries | 40 | – | – | 49,308 | 49,308 |
| Exchange realignment | | 52 | 3 | 1,171 | 1,226 |
| Credit to profit or loss | 8 | (128) | (3) | (1,815) | (1,946) |
| At 31 March 2011 | | 1,289 | 69 | 48,664 | 50,022 |
| At 1 April 2011 | | 1,289 | 69 | 48,664 | 50,022 |
| Exchange realignment | | 46 | 3 | 1,750 | 1,799 |
| Credit to profit or loss | 8 | (134) | (2) | (3,795) | (3,931) |
| At 31 March 2012 | | 1,201 | 70 | 46,619 | 47,890 |

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

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

| | Group | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| Tax losses | **2,278** | 1,285 |
| Accelerated tax depreciation | **(132)** | (132) |
| | **2,146** | 1,153 |

## 32. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (Continued)

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

At the end of the reporting period, the Group has unused tax losses of around HK$11,907,000 (2011: HK$7,791,000) available to offset against future profits. No deferred tax assets has been recognised in respect of the tax losses (2011: HK$Nil) due to unpredictability of future profit stream. The tax losses do not expire under current tax legislation except for an amount of HK$3,687,000 (2011: HK$Nil), which will be expired in five years. During the year ended 31 March 2011, unused unrecognised tax losses, accelerated tax depreciation and allowance for impairment of trade receivables of approximately HK$25,425,000, HK$25,000 and HK$3,041,000 respectively were released upon disposal of subsidiaries.

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. The Group will be subject to 5% withholding tax on dividends receivable from a PRC subsidiary and 10% withholding tax on dividends receivable from another PRC subsidiary in respect of their earnings accumulated beginning on 1 January 2008.

At 31 March 2012, no deferred tax liabilities has been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.



## 33. PROMISSORY NOTES

Pursuant to the completion of the Mega Bright Acquisition, on 1 September 2009, the Company issued HK$46,500,000 36-month promissory notes for the settlement of part of the consideration of the Mega Bright Acquisition. The promissory notes bear interest at 1% over the prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited. During the year ended 31 March 2010, the Company redeemed HK$6,500,000 of the promissory notes for HK$6,500,000 in cash and during the year ended 31 March 2011, the Company redeemed the remaining HK$40,000,000 promissory notes in cash.

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| At the beginning of the year | **-** | 40,000 |
| Redemption during the year | **-** | (40,000) |
| At the end of the year | **-** | – |

## 34. CONVERTIBLE BONDS

Pursuant to the completion of the Mega Bright Acquisition on 30 September 2009, the Company issued HK$40,000,000 unsecured zero coupon convertible bonds at an initial conversion price of HK$0.48 per share (as adjusted due to the Share Consolidation as detailed in note 38 and subject to anti-dilution adjustments) for settlement of part of the consideration of the Mega Bright Acquisition. The convertible bonds have a maturity of 2 years from the date of issue.

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

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

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

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

* As adjusted due to the Share Consolidation in year 2010.

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

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

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| At the beginning of the year | **16,603** | 31,489 |
| Cancelled during the year (note (i)) | **–** | (20,293) |
| Imputed interest expense charged for the year (note 6) | **1,397** | 5,407 |
| Redemption (note (ii)) | **(18,000)** | – |
| At the end of the year | **–** | 16,603 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

## 34. CONVERTIBLE BONDS (Continued)

Notes:

(i) Unlisted convertible bonds with a total principal amount of HK$22,000,000 were cancelled as compensation for the shortfall receivable by the Company under the profit guarantee provided by the vendor of Mega Bright (note 17(a)). The carrying amount of the liability component carried at amortised cost of HK$20,293,000 were cancelled and a gain on extinguishment of convertible bonds of HK$1,268,000 was recognised.

(ii) The convertible bonds matured on 29 September 2011. The Group and the vendor of Mega Bright entered into a confirmation letter on 3 October 2011 in which the conversion right attached to the convertible bonds expired on 29 September 2011 and the principal amount of the convertible bonds of HK$18,000,000 remained as liabilities of the Group (the "bonds liabilities") and the repayment date of the bonds liabilities was deferred to 31 March 2012 without interest.

On 29 March 2012, the Group and the vendor of Mega Bright entered into another confirmation letter in which the bonds liabilities with principle amount of HK$18,000,000 were offset with part of the shortfall receivable by the Company under the profit guarantee provided by the vendor of Mega Bright (note 17(a)).

## 35. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL LIABILITIES/BOND PAYABLE



On 28 December 2010, the Company issued convertible note denominated in RMB to an independent third party in the principal amount of RMB70,000,000 (equivalent to approximately HK$81,680,280) due five years from the closing date of 10 January 2011 with the right to convert the convertible note into 23,746,401 (as adjusted for the share consolidation as disclosed in note 38(b)(v)) conversion shares at the accreted principal amount and the initial conversion price is HK$5.00 (as adjusted for the share consolidation as disclosed in note 38(b)(v)) (subject to adjustments and reset) per conversion share.

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

| Price reset date | Adjusted conversion price HK$ |
|---|---|
| 28 March 2011 | 3.88# |
| 28 June 2011 | 3.00# |
| 28 September 2011 | 2.58# |
| 28 December 2011 | 2.00# |

# As adjusted due to share consolidation effective on 6 March 2012 (note 38(b)(v)).

## 35. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL LIABILITIES/BOND PAYABLE (Continued)

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

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

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

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

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

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

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

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

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

## 35. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL LIABILITIES/BOND PAYABLE (Continued)

The inputs into the model on initial recognition, 31 March 2011 and 28 December 2011 were as follows:

| | 28/12/2010 | 31/3/2011 | **28/12/2011** |
|---|---|---|---|
| Share price: | HK$3.56# | HK$3.24# | **HK$0.8#** |
| Conversion price: | HK$5# | HK$3.88# | **HK$2#** |
| Risk-free rate: | 1.79% | 1.76% | **3.09%** |
| Expected dividend yield: | 0% | 0% | **0%** |
| Annualised volatility: | 83% | 71% | **95%** |

# As adjusted due to share consolidation effective on 6 March 2012 (note 38(b)(v)).

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

On 17 November 2011, the Company received the redemption notice from the noteholder requesting for the redemption of the convertible note with original principal amount of RMB70,000,000 and its accreted portion, together with the accrued but unpaid interest. In accordance with the relevant terms and conditions of the note instrument of the convertible note, the said amount has been due for repayment since December 2011.

The redemption took place on 28 December 2011, the convertible note was transferred to bond payable resulting a loss on redemption of convertible notes of approximately HK$7,785,000.

In view of the financial position of the Group, the directors considered that the Group is unable to fully redeem the convertible notes through its internal resources. Alternatively, the Company had entered into a subscription agreement with an independent third party subsequent to the year-end date for the issuance of convertible bonds in the principal amount of HK$100,000,000 to finance the redemption of the aforesaid convertible notes as disclosed under note 47(i).

As at 31 March 2012, the bond payable approximately HK$95,459,000 is unsecured and interest bearing at rate of 6% per annum and the principal amount accreted for 7% per annum. It was due for repayment since December 2011 and remained unsettled up to the date of approval of these financial statements.

## 35. CONVERTIBLE NOTE/DERIVATIVE FINANCIAL LIABILITIES/BOND PAYABLE (Continued)

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

| | | Derivative financial instruments | | |
|---|---|---|---|---|
| | Liabilities component | Put option | Conversion option | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Fair value on initial recognition | 32,164 | 9,496 | 40,020 | 49,516 |
| Interest expense charged for the period (note 6) | 3,258 | – | – | – |
| Fair value change of embedded derivatives (note 5) | – | (511) | (694) | (1,205) |
| Exchange realignment | 713 | 178 | 779 | 957 |
| At 31 March 2011 | 36,135 | 9,163 | 40,105 | 49,268 |
| Interest expense charged for the year (note 6) | 10,442 | – | – | – |
| Fair value change of embedded derivatives (note 5) | – | 13,857 | (21,257) | (7,400) |
| Redemption | (47,224) | (23,020) | (18,848) | (41,868) |
| Exchange realignment | 647 | – | – | – |
| At 31 March 2012 | – | – | – | – |

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

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

The maximum aggregate number of shares permitted to be issued upon exercise of all outstanding options to be granted under the Existing Scheme is 3,872,225 (as adjusted for the share consolidation as disclosed in note 38(b)(v)) representing 10% of the total number of issued shares of the Company at 11 August 2009, being the date of approval of the refreshment of the maximum limit under the Existing Scheme.

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

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

The maximum aggregate number of shares permitted to be issued upon exercise of all outstanding options to be granted under the New Scheme is 7,594,725 (as adjusted for the share consolidation as disclosed in note 38(b)(v)) representing 10% of the total number of issued shares of the Company at 23 August 2010, being the date of approval of the refreshment of the maximum limit under the New Scheme.

Under the Existing Scheme, 5,507,525 (as adjusted for the share consolidation as disclosed in note 38(b)(v)) outstanding options shall continue to be valid and exercisable in accordance with the rules of the Existing Scheme. The directors confirm that no further options would be granted under the Existing Scheme prior to 23 August 2010.

The maximum aggregate number of shares permitted to be issued upon exercise of all outstanding options to be granted under the New Scheme is 13,119,725 (as adjusted for the share consolidation as disclosed in note 38(b)(v)), representing 10% of the total number of issued shares of the Company at 11 August 2011, being the date of approval of the refreshment of the maximum limit under the New Scheme.

As at 31 March 2012, a total of 5,107,525 and 6,152,500 shares (as adjusted for the share consolidation as disclosed in note 38(b)(v)) (2011: 5,107,525 and 4,052,500 shares) was issuable upon exercise of all share options granted under the Existing Scheme and the New Scheme respectively (collectively the "Schemes"), which represented 3.2% and 3.9% (2011: 3.9% and 3.1%) of the Company's issued share capital at that date.



Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The principal terms of the Schemes is set out as follows:

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

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

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

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

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

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

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Shares underlying the options '000** | Weighted average exercise price HK$ | Shares underlying the options '000 |
| Outstanding at beginning of year | **0.189** | **183,201** | 0.202 | 110,151 |
| Granted during the year | **0.150** | **42,000** | 0.168 | 109,050 |
| Adjustment arising from the share consolidation | **–** | **(213,941)** | – | – |
| Exercised during the year | **–** | **–** | 0.165 | (36,000) |
| Outstanding at end of year | **3.637** | **11,260** | 0.189 | 183,201 |
| Exercisable at end of year | **3.637** | **11,260** | 0.189 | 183,201 |

The share options outstanding at 31 March 2012 had a weighted average remaining contractual life of 7.95 years (2011: 8.64 years).

# Mr. Zhang Chi resigned as director of the Company on 29 April 2011. However, Mr. Zhang Chi become a consultant of the Group and continues to be entitled to the shares options after his resignation as a director of the Company.

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

The aggregate fair value of the share options granted during the year ended 31 March 2012 amounted to approximately HK$3,567,000 (2011: HK$7,860,000), which has fully been recognised as share option expense for the year. The fair values of the share options were estimated as at the measurement date by using the Black-Scholes options-pricing model, taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the valuation model are as follows:

| Date of grant | 20/02/08 | 22/02/08 | 02/05/08 | 09/05/08 | 07/07/08 | 17/09/08 | 31/12/08 | 18/05/09 | 01/09/09 | 30/03/10 | 15/11/10 | 10/01/11 | 12/07/11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Closing share price at date of grant (HK$) | 0.060 | 0.060 | 0.048 | 0.047 | 0.034 | 0.042 | 0.035 | 0.042 | 0.157 | 0.260 | 0.166 | 0.175 | 0.150 |
| Exercise price (HK$) | 0.061 | 0.062 | 0.049 | 0.048 | 0.036 | 0.0506 | 0.035 | 0.042 | 0.160 | 0.286 | 0.166 | 0.175 | 0.15 |
| Risk-free interest rate per annum | 2.42% | 2.40% | 2.368% | 2.373% | 3.317% | 2.389% | 1.194% | 0.83% | 1.1694% | 1.233% | 0.438% | 0.545% | 0.558% |
| Expected life of option (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 3 | 3 | 2 | 2 | 2 | 3 |
| Expected volatility | 112% | 0.0497 | 0.0318 | 83% | 84% | 88% | 97% | 119% | 103% | 115% | 89% | 85% | 90% |
| Expected dividend per annum | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Estimated fair value per share option (HK$) | 0.0489 | 0.0497 | 0.0318 | 0.0290 | 0.0228 | 0.0263 | 0.0256 | 0.0229 | 0.0825 | 0.1476 | 0.0718 | 0.0732 | 0.0849 |

Notes:

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

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

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

(iv) The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

## 37. EMPLOYEE RETIREMENT BENEFITS

### DEFINED CONTRIBUTION RETIREMENT PLAN

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

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

No forfeited contributions were recognised during the year and there were no material forfeitures available to reduce the Group's future contributions at 31 March 2012 and 2011.

## 38. SHARE CAPITAL



### (a) ORDINARY SHARES

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **No. of shares '000** | **Amount HK$'000** | No. of shares '000 | Amount HK$'000 |
| **Authorised** | | | | |
| Ordinary shares of HK$0.04 each | | | | |
| Beginning of year | **7,500,000** | **300,000** | 2,500,000 | 100,000 |
| Share consolidation (note b(v)) | **(7,125,000)** | **–** | – | – |
| Reduction of capital (note b(v)) | **–** | **(296,250)** | – | – |
| Increase during the year (note b(v)/(vi)) | **29,625,000** | **296,250** | 5,000,000 | 200,000 |
| Ordinary shares of HK$0.01 each (2011: HK$0.04 each) | | | | |
| At the end of year | **30,000,000** | **300,000** | 7,500,000 | 300,000 |

## 38. SHARE CAPITAL (Continued)

### (a) ORDINARY SHARES (Continued)

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Issued and fully paid | | |
| 157,197,250 shares of HK$0.01 each (2011: 2,623,945,000 shares of HK$0.04 each) | 1,572 | 104,958 |

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

| | Note | Number of ordinary shares of HK$0.04 per share | Number of ordinary shares of HK$0.8 per share | Number of ordinary shares of HK$0.01 per share | Issued share capital HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2010 | | 1,134,445,000 | – | – | 45,378 |
| Placing of new shares | b(i) | 1,237,500,000 | – | – | 49,500 |
| Exercise of share options | b(ii) | 36,000,000 | – | – | 1,440 |
| Issue of shares for acquisition of subsidiaries | b(iii) | 216,000,000 | – | – | 8,640 |
| At 31 March 2011 | | 2,623,945,000 | – | – | 104,958 |
| At 1 April 2011 | | 2,623,945,000 | – | – | 104,958 |
| Placing of new shares | b(iv) | 520,000,000 | – | – | 20,800 |
| Share consolidation | b(v) | (3,143,945,000) | 157,197,250 | – | – |
| Capital reduction | b(v) | – | (157,197,250) | 157,197,250 | (124,186) |
| At 31 March 2012 | | – | – | 157,197,250 | 1,572 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 38. SHARE CAPITAL (Continued)

**(b)** (Continued)

Notes:

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

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

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

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

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

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



(iii) On 22 March 2011, the Company allotted and issued 216,000,000 ordinary shares with a par value of HK$0.04 per share as part of the consideration for the acquisition of Ever Stable Holdings Limited (note 40).

The fair value of the 216,000,000 ordinary shares issued of HK$29,592,000 was based on the published price of the shares of the Company at 30 September 2010 of HK$0.137 per share. An increase in share capital and share premium of HK$8,640,000 and HK$20,952,000 was recognised upon issuance of the ordinary shares. The fair value was determined by a valuation undertaken by LCH (Asia-Pacific) Surveyors Limited.

(iv) On 27 February 2012, the Company placed and issued 520,000,000 ordinary shares with a par value of HK$0.04 and recognised an increase in share capital of HK$20,800,000. These shares rank pari passu in all respects.

## 38. SHARE CAPITAL (Continued)

**(b)** (Continued)

Notes: (Continued)

(v) The Company effected the following share consolidation, capital reduction and capital increase on 6 March 2012.

Share Consolidation

– The consolidation of every twenty issued and unissued shares with a par value of HK$0.04 each in the share capital of the Company into one consolidated share with a par value of HK$0.80 each.

Capital Reduction

– The reduction of the issued share capital of the Company by cancelling the paid-up capital of the Company to the extent of HK$0.79 on each of the issued consolidated shares such that the par value of each of the issued consolidated shares was reduced from HK$0.80 each to HK$0.01 each.

– The reduction of the authorised share capital of the Company by reducing the par value of all consolidated shares from HK$0.80 each to HK$0.01 each resulting in the reduction of the authorised share capital of the Company from HK$300,000,000 divided into 375,000,000 consolidated shares with a par value of HK$0.80 each to HK$3,750,000 divided into 375,000,000 shares with a par value of HK$0.01 each.

– The credit arising from the capital reduction and the share premium cancellation be credited to the contributed surplus account of the Company and the directors of the Company be and are hereby authorised to apply the amount in the contributed surplus account of the Company to set off the accumulated loss of the Company in the manner permitted by the laws of Bermuda and the bye-laws of the Company without further authorisation from the shareholders of the Company.

Capital Increase

– Following the Share Consolidation and Capital Reduction, the Company had a capital increase involving the increase of the authorised share capital of the Company from HK$3,750,000 divided into 375,000,000 shares with a par value of HK$0.01 each to HK$300,000,000 divided into 30,000,000,000 shares with a par value of HK$0.01 each.

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

Warrants

On 5 November 2010, the Company entered into a placing agreement with a placing agent pursuant to which the Company agreed to appoint the placing agent on a fully underwritten basis for the purpose of arranging subscribers for the subscription of warrants to be issued. The issue price per warrant is HK$0.01. The subscription price was HK$0.15 on the date of issue and was adjusted to HK$3 after the Share Consolidation on 6 March 2012 (subject to adjustment). The subscription period is from the date of issue of the warrants to the expiry of the second anniversary of the issue date of the warrants. 7,500,000 warrants (as adjusted for the share consolidation as disclosed in note 38(b)(v)) were issued and the gross proceeds from the placing were HK$1,500,000.

During the year ended 31 March 2012, no warrant was exercised to subscribe for ordinary shares of the Company.

## 39. RESERVES

### GROUP

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

### COMPANY

| | Share premium HK$'000 | Accumulated losses HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Convertible bonds equity reserve HK$'000 | Warrants reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2010 | 201,875 | (117,302) | – | 13,637 | 7,439 | – | 105,649 |
| Exercise of share options (note 38(b)(ii)) | 7,422 | – | – | (2,934) | – | – | 4,488 |
| Placing of new shares (note 38(b)(i)) | 156,355 | – | – | – | – | – | 156,355 |
| Issue of shares for acquisition (note 38(b)(iii)) | 20,952 | – | – | – | – | – | 20,952 |
| Share issue expenses | (3,404) | – | – | – | – | – | (3,404) |
| Cancellation of convertible bonds | – | 1,117 | – | – | (4,092) | – | (2,975) |
| Issue of warrants (note 38(b)) | – | – | – | – | – | 1,500 | 1,500 |
| Equity-settled share-based payments (note 36) | – | – | – | 7,860 | – | – | 7,860 |
| Loss for the year | – | (27,489) | – | – | – | – | (27,489) |
| At 31 March 2011 | 383,200 | (143,674) | – | 18,563 | 3,347 | 1,500 | 262,936 |
| At 1 April 2011 | 383,200 | (143,674) | – | 18,563 | 3,347 | 1,500 | 262,936 |
| Placing of new shares | (881) | – | – | – | – | – | (881) |
| Capital reduction (note 38(b)(v)) | – | – | 124,186 | – | – | – | 124,186 |
| Extinguishment of convertible bonds | – | 3,347 | – | – | (3,347) | – | – |
| Equity-settled share-based payments (note 36) | – | – | – | 3,567 | – | – | 3,567 |
| Transfer (note 38(b)(v)) | – | 124,186 | (124,186) | – | – | – | – |
| Loss for the year | – | (28,802) | – | – | – | – | (28,802) |
| At 31 March 2012 | 382,319 | (44,943) | – | 22,130 | – | 1,500 | 361,006 |

## 39. RESERVES

### Nature and purpose of reserves

#### (i) SHARE PREMIUM

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

#### (ii) SHARE OPTION RESERVE

The share option reserve relates to share options granted under the Company's share option scheme. Further information about share-based payments to employees is set out in note 36.

#### (iii) CONVERTIBLE BONDS EQUITY RESERVE

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

#### (iv) MERGER RESERVE



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

#### (v) EXCHANGE RESERVE

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

#### (vi) WARRANTS RESERVE

Warrants reserve represents the net proceeds received from the issue of warrants. The warrants reserve will be transferred to share premium account upon the exercise of the warrants.

## 39. RESERVES (Continued)

### (vii) CONTRIBUTED SURPLUS

The contribution surplus represented reduction in issued share capital pursuant to a Capital Reduction effective on 6 March 2012. Under the Company Law of Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities.

### (viii) STATUTORY RESERVE

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

### (ix) DISTRIBUTABILITY OF RESERVE

At 31 March 2012, the Company had no distributable reserve (2011: Nil).

## 40. ACQUISITION OF SUBSIDIARIES

### EVER STABLE ACQUISITION

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

– HK$215,000,000 in cash; and

– the issue and allotment of 216,000,000 new ordinary shares of HK$0.04 each by the Company at an issue price of HK$0.3009 per share. All the consideration shares were issued on 22 March 2011 (note 38(b)(iii)).

On 28 March 2011, the vendor and the Group entered into a supplemental agreement to amend certain terms and conditions of the Ever Stable Acquisition agreement to reflect the group structure of Ever Stable such that Ever Stable also held the entire equity interest of World Champion Investments Limited ("World Champion") which in turn held 100% equity interest of Zhongshan Jiu He Bioplastic Company Limited ("Zhongshan Jiu He"). By a declaration of trust dated 7 June 2011, World Champion became the nominee of and holds the 40% equity interest of Zhongshan Jiu He for and on behalf of Guangdong Shangjiu Biodegradable Plastics Company Limited, as the beneficial owner, from 4 March 2011.



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

The vendor has undertaken to guarantee and procure up to 60% of the proposed aggregate paid-up capital of Dongguan Jiu He and Zhongshan Jiu He to be not less than US$17,000,000 (i.e. US$10,200,000) on or before 30 June 2013. As of 30 September 2010, the vendor has injected US$1,370,000 (approximately equivalent to HK$10,686,000) into Dongguan Jiu He. Accordingly, the vendor is committed to inject an additional amount of US$8,830,000 (approximately equivalent to HK$68,536,000) to the capital of Dongguan Jiu He and Zhongshan Jiu He in aggregate. The 216,000,000 consideration ordinary shares issued on 22 March 2011 (note 38(b)(iii)) are held in escrow by the legal adviser of the Company until such time, the capital injection into Dongguan Jiu He and Zhongshan Jiu He is complete.

## 40. ACQUISITION OF SUBSIDIARIES (Continued)

### EVER STABLE ACQUISITION (Continued)

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

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

| | HK$'000 |
|---|---|
| Property, plant and equipment (note 15) | 4,157 |
| Intangible assets (note 18 and 40(i)) | 247,675 |
| Cash and cash equivalents | 4,528 |
| Deposit | 575 |
| Other receivables | 8,354 |
| Other payables | (51,161) |
| Deferred tax liabilities (note 32(a)) | (49,308) |
| Fair value of net assets | 164,820 |
| Non-controlling interests (note 40(ii)) | (66,056) |
| Goodwill arising on acquisition (notes 17 and 40(iii)) | 86,679 |
| Total costs of business combination | 185,443 |
| Satisfied by: | |
| Cash * | 215,000 |
| Issue of shares (note 40(iv)) | 29,592 |
| Total consideration transferred | 244,592 |
| Less: Receivable from vendor of Ever Stable acquisition (note 40(v)) | (59,149) |
| Net consideration | 185,443 |

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

* Including the deposit of HK$10,000,000 paid during the year ended 31 March 2010.

## 40. ACQUISITION OF SUBSIDIARIES (Continued)

### EVER STABLE ACQUISITION (Continued)

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

Notes:

(i) Intangible assets represents the right to use two patents of intellectual property in relation to biodegradable materials as licensed by a shareholder of Dongguan Jiu He. The fair value of the intangible assets acquired amounting to approximately HK$247,675,000 was determined by the Board by reference to the assets valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer. The valuation was made employing the multi-period excess earnings method, using a long term growth rate of 3.0% and an adjusted discount factor of 24.15% as inputs.

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

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

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

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

(vi) If the Ever Stable Acquisition had been completed on 1 April 2010, the Group's revenue would have remained at HK$288,970,000 and the loss for the year ended 31 March 2011 from continuing operations would have increased to HK$38,686,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group for the year ended 31 March 2011 that actually would have been achieved had the acquisition been completed on 1 April 2010, nor is it intended to be a projection of future results.

(vii) Included in the loss for the year ended 31 March 2011 from continuing operations is HK$5,453,000 attributable to the acquisition of Ever Stable. Revenue for the year ended 31 March 2011 includes HK$Nil in respect of Ever Stable.

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

## 41. COMMITMENTS

### (a) CAPITAL COMMITMENTS

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| Prepaid lease payments | **16,014** | – |
| Acquisition of property, plant and equipment | **26,410** | 2,496 |
| Construction in progress | **2,097** | 3,260 |
| | **44,521** | 5,756 |

In addition to above, as at 31 March 2012, the Group had contracted, but not provided for an amount of HK$780,000,000 representing capital commitment to acquire the entire equity interest in Fame Shine Holdings Limited at a consideration of the same amount. Subsequent to the reporting period, the Group had entered into a termination agreement to terminate the said contract. More details are disclosed in note 47(ii) to these financial statements.



### (b) OPERATING LEASE COMMITMENTS

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

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within one year | **2,818** | 2,172 |
| In the second to fifth years inclusive | **8,182** | 793 |
| After fifth year | **8,949** | – |
| | **19,949** | 2,965 |

The Group is the lessee in respect of a number of properties under operating leases. The leases typically run for an initial period of 2 to 10 years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

## 42. GRANT OF THE EQUITY LINE OF CREDIT TO THE COMPANY

Pursuant to the equity line of credit agreement dated 9 September 2011 (the "Agreement") and its supplemental agreements dated 16 September 2011 and 27 September 2011 respectively entered into between the Company and Lyceum Partners LLC (the "Investor"), the Company has been granted an option (the "Option") by the Investor to require the Investor to subscribe for new shares of the Company (the "Option Shares") up to an aggregate of 1,000,000,000 Option Shares (the "Total Commitment"), subject to certain conditions.

The Option is exercisable by the Company during the Commitment Period, being the period commencing on 8 November 2011 and expiring upon the earlier of (i) the expiry of the 36 months from such date, and (ii) the date on which the aggregate of the Option Shares subscribed by the Investor under the Agreement equals the Total Commitment.

The Company may exercise the Option by issuing multiple tranche notices (subject to terms and maximum number of Option Shares to be subscribed by the Investor) during the Commitment Period except that it may not, without the prior written consent of the Investor, deliver a tranche notice until (i) the expiry of the Pricing Period (as defined in the Company's circular dated 3 October 2011) relating to any tranche notice previously issued by the Company, (ii) the Option Shares specified in the relevant previous tranche notice have been listed and become tradable, and (iii) the trading price of the Company's shares shall equal to or greater than HK$0.25 per share (as amended by the supplemental agreement dated 27 September 2011) on the tranche notice date.



With regard to any Pricing Period, the subscription price per Option Share shall be 83% of the 5-day average of the closing prices of the Company's shares during such period. If the subscription price per Option Share shall be lower than the Threshold Price being a minimum of HK$0.175 per Option Share (as amended by the supplemental agreement dated 27 September 2011), the Investor shall pay the subscription price per Option Share equals to the Threshold Price. The subscription price shall be calculated and funded in US Dollars. The Company shall not make any rights issue, open offer, bonus issue, subdivision, consolidation, stock split or similar restructuring of the shares of the Company during the relevant Pricing Period.

The Investor also entered into a share lending agreement with one of the shareholders of the Company (the "Share Lender") so as to facilitate the Investor's subscription of the Option Shares under the Agreement. The Company has agreed with the Share Lender to reimburse the Share Lender for all costs, fees and expenses incurred by the Share Lender in connection with the lending of the shares.

As a result of the Share Consolidation of the Company effective on 6 March 2012 (Note 38(v)), the Total Commitment was adjusted to 50,000,000 Option Shares, the Threshold Price was adjusted to HK$3.5 per Option Share and the trading price of the Company's shares in relation to the conditions of the Company's issuance of tranche notice as mentioned above was adjusted to HK$5 per share.

The directors of the Company, by reference to the valuation report issued by a professional valuer, considered that the fair values of the Option at the date of grant and as at 31 March 2012 were insignificant.

## 43. MAJOR NON-CASH TRANSACTION

Unlisted convertible bonds with a total principal amount of HK$18,000,000 was matured during the year and remained as bonds liabilities. The bonds liabilities were used to offset against part of the shortfall under the profit guarantee provided by the vendor of Mega Bright to the Company.

During the year ended 31 March 2011, unlisted convertible bonds with a total principal amount of HK$22,000,000 were cancelled as compensation for the shortfall under the profit guarantee provided by the vendor of Mega Bright to the Company.

## 44. MATERIAL RELATED PARTY TRANSACTIONS

### a) KEY MANAGEMENT PERSONNEL COMPENSATION

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11(a) are as follows:

| | Group | |
|---|---|---|
| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
| Short-term employee benefits | **2,133** | 1,967 |
| Equity compensation benefits | **–** | 2,374 |
| | **2,133** | 4,341 |

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

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

**b)** One of the directors of the Company has provided personal guarantee for an unsecured short-term loan amounting to HK$3,000,000 granted to the Company.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Categories of financial instruments:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| **Financial assets** | | |
| Fair value through profit or loss | **19,630** | – |
| Loans and receivables (including cash and cash equivalents) | **182,992** | 139,544 |
| Available-for-sale financial assets | **180** | 180 |
| **Financial liabilities** | | |
| Fair value through profit or loss | **–** | 49,268 |
| Amortised cost | **429,185** | 262,160 |

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **2,696** | 12,592 |
| **Financial liabilities** | | |
| Fair value through profit or loss | **–** | 49,268 |
| Amortised cost | **139,776** | 96,702 |

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

### CAPITAL MANAGEMENT

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

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

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

### CAPITAL MANAGEMENT (Continued)

The Group monitors capital using a gearing ratio, determined as the proportion of net debt to equity derived from the consolidated statement of financial position. The following table analyses the Group's capital structure as at 31 March 2012:

| | **2012** **HK$'000** | 2011 HK$'000 |
|---|---|---|
| Debts (note (i)) | **179,139** | 152,323 |
| Less: Cash and cash equivalents (note 28) | **(7,938)** | (24,605) |
| Net debt | **171,201** | 127,718 |
| Total equity (note (ii)) | **492,018** | 501,679 |
| Net debt to equity ratio | **34.80%** | 25.46% |

Notes:

(i) Debt comprises long-term and short-term interest-bearing loans, convertible bonds, convertible note, derivative financial liabilities and bond payable as detailed in notes 31, 34 and 35 respectively.

(ii) Equity includes all capital and reserves of the Group.

### *(a) Credit risk*

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

(i) In respect of trade and other receivables and loans receivable, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The management continuously evaluates the credit worthiness and payment record of each borrower or customer and these credit risks are closely monitored on an ongoing basis. At the end of each reporting period, the Group reviews the recoverable amount of each individual debt to ensure that adequate impairment losses are made for irrecoverable amounts. The Group does not require collateral in respect of its financial assets. Debts are usually due within 1 to 3 months from the date of billing. Loans receivable are usually due over 1 year from the date of grant.

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

### CAPITAL MANAGEMENT (Continued)

#### *(a) Credit risk (Continued)*

(ii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group has certain concentration of credit risk as approximately 33% (2011: 32%) and 70% (2011: 49%) of the Group's trade receivables was attributable to one single customer and five customers respectively.

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

(iv) In respect of other receivables, the management has closely monitor and review the recoverability of the amounts and the directors consider such credit risk is manageable.

(v) Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loans receivable, trade receivables and other receivables are set out in notes 23, 25 and 26 respectively.



#### *(b) Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The directors of the Company will consider to raise fund by ways of issuing debt and equity instruments of the Group or to obtain adequate committed lines of funding from financial institutions to meet its liquidity requirements in future.

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

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

### CAPITAL MANAGEMENT (Continued)

***(b) Liquidity risk (Continued)***

**The Group**

**At 31 March 2012**

| | Less than 1 year or on demand HK$'000 | Between 1 to 2 years HK$'000 | Between 2 to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Trade payables | **12,165** | **-** | **-** | **12,165** | **12,165** |
| Bank acceptance note payables | **156,698** | **-** | **-** | **156,698** | **156,698** |
| Interest-bearing loans | **88,201** | **-** | **-** | **88,201** | **83,680** |
| Other payables | **81,183** | **-** | **-** | **81,183** | **81,183** |
| Bond payable | **95,459** | **-** | **-** | **95,459** | **95,459** |
| | **433,706** | **-** | **-** | **433,706** | **429,185** |

At 31 March 2011

| | Less than 1 year or on demand HK$'000 | Between 1 to 2 years HK$'000 | Between 2 to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Trade payables | 19,004 | – | – | 19,004 | 19,004 |
| Bank acceptance note payables | 65,505 | – | – | 65,505 | 65,505 |
| Interest-bearing loans | 48,081 | 7,361 | – | 55,442 | 50,317 |
| Other payables | 74,596 | – | – | 74,596 | 74,596 |
| Convertible bonds | 18,000 | – | – | 18,000 | 16,603 |
| Convertible note | 94,503 | – | – | 94,503 | 36,135 |
| | 319,689 | 7,361 | – | 327,050 | 262,160 |

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

### CAPITAL MANAGEMENT (Continued)

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

**The Company**

**At 31 March 2012**

| | Less than 1 year or on demand HK$'000 | Between 1 to 2 years HK$'000 | Between 2 to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Other payables | 4,182 | - | - | 4,182 | 4,182 |
| Interest-bearing loan | 3,152 | - | - | 3,152 | 3,000 |
| Bond payable | 95,459 | - | - | 95,459 | 95,459 |
| Amount due to a subsidiary | - | 37,135 | - | 37,135 | 37,135 |
| | 102,793 | 37,135 | - | 139,928 | 139,776 |



At 31 March 2011

| | Less than 1 year or on demand HK$'000 | Between 1 to 2 years HK$'000 | Between 2 to 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| Other payables | 2,329 | – | – | 2,329 | 2,329 |
| Convertible bonds | 18,000 | – | – | 18,000 | 16,603 |
| Convertible note | 94,503 | – | – | 94,503 | 36,135 |
| Amount due to a subsidiary | – | 41,635 | – | 41,635 | 41,635 |
| | 114,832 | 41,635 | – | 156,467 | 96,702 |

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

### CAPITAL MANAGEMENT (Continued)

#### *(c) Interest rate risk*

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

The Group's interest rate risk arises primarily from short-term bank borrowings. As at 31 March 2012, except for the bank borrowing of HK$54,971,000 (2011: HK$10,124,000) which had an average effective interest rate of 9.59% per annum (2011: 5.37% per annum), the Group and the Company had no significant variable interest-bearing assets and liabilities.

As at 31 March 2012, the Group and the Company was primarily exposed to cash flow interest rate risks and fair value interest rate risks arising from bank borrowings, which were charged at floating interest rates and fixed rates respectively, calculated with reference to market rates. Management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise.

*(ii) Sensitivity analysis*

As at 31 March 2012, it is estimated that an increase/decrease of 50 basis points in interest rates, with all other variables held constant, would cause the Group's net loss and accumulated losses to increase/decrease by approximately HK$206,000 (2011: HK$51,000), arising as a result of higher/lower interest expenses. There would be no impact on other components of the Group's equity.

As at 31 March 2012, it is estimated that an increase/decrease of 50 basis points in interest rates, with all other variables held constant, would cause the Company's net loss and accumulated losses to increase/decrease by approximately HK$Nil (2011: HK$Nil), arising as a result of higher/lower interest expenses. There would be no impact on other components of the Company's equity.

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

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

### CAPITAL MANAGEMENT (Continued)

#### *(d) Foreign currency risk*

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

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

*(i) Exposure to currency risk*

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

| | **The Group Exposure to foreign currencies (expressed in HK$'000)** | |
|---|---|---|
| | **2012 RMB** | 2011 RMB |
| Bond payable | **95,459** | – |
| Convertible note | **–** | 83,300 |
| Gross exposure arising from recognised assets and liabilities | **95,459** | 83,300 |

| | **The Company Exposure to foreign currencies (expressed in HK$'000)** | |
|---|---|---|
| | **2012 RMB** | 2011 RMB |
| Bond payable | **95,459** | – |
| Convertible note | **–** | 83,300 |
| Gross exposure arising from recognised assets and liabilities | **95,459** | 83,300 |

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

### CAPITAL MANAGEMENT (Continued)

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

*(ii) Sensitivity analysis*

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

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rate** | **Effect on loss after tax and accumulated losses HK$'000** | Increase/ (decrease) in foreign exchange rate | Effect on loss after tax and accumulated losses HK$'000 |
| Renminbi | **4%** | **3,818** | 4% | 3,335 |
| | **(4%)** | **(3,818)** | (4%) | (3,335) |

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2011.

#### *(e) Other price risk*

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the end of the reporting period of last year, the Group is exposed to this risk through the conversion rights attached to the convertible note issued by the Company as disclosed in note 35.

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

### CAPITAL MANAGEMENT (Continued)

#### *(f) Fair value of financial instruments*

*(i) Financial instruments carried at fair value*

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

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

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

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



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

| | As at 31 March 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | The Group | | | | The Company | | | |
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| **Assets** | | | | | | | | |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - | - | - |
| Derivative financial asset | - | - | 19,630 | 19,630 | - | - | - | - |
| Total | - | - | 19,630 | 19,630 | - | - | - | - |

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

**CAPITAL MANAGEMENT (Continued)**

***(f) Fair value of financial instruments (Continued)***

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

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

Reconciliation of Level 3 fair value measurements of financial assets

| | Contingent consideration asset | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| Opening balance | **–** | – |
| Gains or losses recognised in: | | |
| – profit or loss | **19,630** | – |
| Closing balance | **19,630** | – |

All of the above gains and losses included in profit or loss for the current year relate to derivative financial asset held at the end of the reporting period.

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

### CAPITAL MANAGEMENT (Continued)

#### *(f) Fair value of financial instruments (Continued)*

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

The Group held certain derivative financial instruments which are carried in the financial statements at fair value, as further detailed in notes 21 and 35 to the financial statements. In respect of the derivative financial asset, its fair value was measured based on a valuation technique for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (the "Level 3 measurement"). In respect of the derivative financial liabilities, their fair values were measured based on a valuation technique for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly (the "Level 2 measurement").

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



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

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

#### *(g) Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

## 46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management has made the following accounting judgements:

#### *(i) Depreciation and amortisation*

The Group depreciates the property, plant and equipment and amortises the intangible assets (other than goodwill) and prepaid lease payments in accordance with the accounting policies stated in notes 2(f), 2(g) and 2(h). The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

#### *(ii) Impairment of property, plant and equipment and prepaid lease payments*

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying amounts of the assets and could result in additional impairment charge or reversal of impairment in future periods.

#### *(iii) Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with HKAS 36 "Impairment of Assets" ("HKAS 36"). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Had the pre-tax discount rate, revenue growth rate and terminal growth rate applied to the discounted cash flow been different from the management's estimate, the goodwill might result in impairment. Details of the assumptions are described in note 17.

## 46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (a) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (Continued)

#### *(iv) Impairment of intangible assets*

Intangible assets represented the right of using the two patents of intellectual property. The recoverable amounts have been determined based on value in use calculations. These calculations require the use of estimates. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and operating costs. Had the actual results been different from the management's estimate, the use right of the two patents might result in impairment.

#### *(v) Impairment of trade, other and loans receivables*



The policy for impairment assessment for trade, other and loans receivables of the Group is based on the evaluation of collectability and an aging analysis of the receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer or borrower. As at 31 March 2012, allowance for impairment of doubtful loans receivable was HK$160,000 (2011: HK$656,000), while allowance for impairment of doubtful trade and other receivables was HK$Nil (2011: HK$Nil). If the financial conditions of borrowers or customers of the Group were to deteriorate, resulting in further impairment of their ability to make payments, additional provision may be required.

## 46. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) SOURCES OF ESTIMATION UNCERTAINTY

#### *(i) Derivative financial asset*

Derivative financial asset represents the contingent consideration asset in connection with the acquisition of Ever Stable Group. Details on the contingent consideration asset are included in note 21 to the financial statements. This undertaking has been accounted for as a derivative financial asset and is stated at fair value in accordance with the accounting policies stated in note 2(q) to the financial statements. The fair value of contingent consideration asset is determined based on management's best estimates. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from actual results.

### (c) RECOGNITION OF EQUITY-SETTLED SHARE-BASED PAYMENTS

The Group's directors and employees have been awarded share options under the Company's share option scheme for their services rendered to the Group. The Company has applied the Black-Scholes options pricing model to determine the grant-date fair values of the options granted. Significant judgement and estimates are required to determine the assumptions input to the Black-Scholes options-pricing model, including the risk-free interest rate, the expected volatility and the expected life of the options. Changes in these assumptions could have a material effect on the fair values of the options granted, which in turn could result in a material impact on the share option expense recognised for the year. Further details of the Company's share options and share option expense are set out in note 36.



## 47. EVENTS AFTER THE REPORTING PERIOD

(i) On 3 April 2012, the Company entered into a subscription agreement with an independent third party for the issuance of convertible bonds in the principal amount of HK$100,000,000 due three years from the issue date with the right to convert the convertible bonds at the conversion price of HK$0.30 per conversion share. The use of proceeds will be used to redeem the bond payable as mentioned in note 35.

(ii) On 13 October 2011, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement (as amended by a supplemental agreement dated 12 December 2011) with vendors to acquire the entire equity interest in Fame Shine Holdings Limited at a consideration of HK$780,000,000. Subsequent to the reporting period on 19 April 2012, the above-mentioned contractual parties had entered into a termination agreement to terminate the said sale and purchase agreement.

(iii) On 28 June 2012, the Group entered into a confirmation letter with the vendor of Mega Bright Investment Development Limited in relation to the profit guarantee given to a 51% owned subsidiary namely Jining Gangning Paper Co, Ltd. Details of which were mentioned in note 17(a).

## 48. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2012

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle[2] |
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to HKFRS 9 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| HKAS 19 (as revised in 2011) | Employee Benefits[2] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

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

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.