Chaoyue Group Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 00147)

Annual Report 2009

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Corporate Information

BOARD OF DIRECTORS

Executive Director

Yuen Leong

Independent Non-Executive Directors

Chen Ye
Chan Wai Dune
Lam Man Kit, Dominic

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Chung Yau Tong

AUDITOR

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Chan Wai Dune *(Chairman)*
Chen Ye
Lam Man Kit, Dominic

REMUNERATION COMMITTEE

Lam Man Kit, Dominic *(Chairman)*
Chen Ye
Chan Wai Dune

NOMINATION COMMITTEE

Chen Ye *(Chairman)*
Chan Wai Dune
Lam Man Kit, Dominic

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE

00147

COMPANY WEBSITE

www.chaoyuehk.com

Management's Statement

We are pleased to present to our shareholders the annual report of Chaoyue Group Limited (the "Company") together with its subsidiaries (the "Group") for the year ended March 31, 2009.

OVERALL RESULTS

The Group's turnover for the year ended March 31, 2009 was HK$60,533,000, representing a decrease of 66.01% compared with HK$178,096,000 in the previous financial year ended March 31, 2008. The Group recorded a gross profit of HK$7,018,000 for the year ended March 31, 2009, representing a decrease of 71.27% compared with HK$24,425,000 reported in 2008. The significant decrease in turnover and gross profit in the current year was mainly due to the reduction in orders from the Group's customers in the United States as a result of the economic downturn and the significant appreciation in Renminbi which had caused an escalation in the costs of sales in the garment business. Besides, the direct drinking water machines and air and water purification equipment and system businesses which was newly acquired in February 2009 did not have positive contribution to the Group because of the slack market just after the Chinese New Year holidays in the People's Republic of China (the "PRC").

The Group's loss for the year amounted to HK$52,537,000 whereas a net profit of HK$12,243,000 was reported in 2008. The loss in the current year was mainly due to the increase in distribution and selling expenses and administrative and other expenses after the acquisition of new business. The distribution and selling expenses increased from HK$938,000 for the year ended March 31, 2008 to HK$9,002,000 for the year ended March 31, 2009. The administrative overhead of the Group for the year ended March 31, 2009 amounted to HK$44,436,000 (2008: HK$11,236,000) which comprised primarily: (1) staff costs of HK$22,314,000 (2008: HK$4,980,000) including HK$13,900,000 (2008: Nil) arising from granting of share options to directors and employees of the Group; (2) operating lease rentals for rented premises of HK$2,011,000 (2008: HK$1,179,000); (3) legal and professional fee of HK$8,545,000 (2008: HK$1,441,000); (4) amortisation of intangible assets of HK$2,506,000 (2008: Nil); (5) bad debt provision of HK$1,689,000 (2008: Nil); and (6) other operating expenses. Besides, the interest expenses accrued on the convertible bonds and other loans of the Company amounted to HK$12,738,000 (2008: HK$5,021,000) further increased the loss for the current year.

Earnings per share for the year ended 31 March 2008 was 5.74 HK cents but for the year ended March 31, 2009, the Group recorded a loss of 15.59 HK cents per share.

The Board does not recommend the payment of dividend for the year ended March 31, 2009.

Management's Statement

REVIEW OF OPERATIONS

Direct drinking water machines

The Group completed the acquisition of Park Wealth International Limited ("**Park Wealth**") (the "**Acquisition**") which holds the entire equity interest in Shanghai Comfort Environment and Science Co., Ltd. ("**SH Comfort**") in February 2009. With the ozone and filtration technology developed by the in-house research and development team of SH Comfort, the direct drinking water machines not only purifies tap water and filters all harmful substances but also improves the water quality by using an air-water mixing technology which helps to enrich the oxygen level in the water by releasing ozone, preventing fresh water from secondary pollution. The direct drinking water machines are leased to the users who pay lease charges as well as service charges in advance in various terms. The target customers are households, offices, factories, large food and beverage chain stores, gas station, government bodies, schools and hospitals.

For the year ended March 31, 2009, the direct drinking water machines business did not have significant contribution to the Group in both the turnover and the operating result, as only the result for the period from February 12, 2009, the completion date of the acquisition, to March 31, 2009 was consolidated to the Group and such period was the slack market just after the Chinese New Year holidays. The lease and service charges generated from water purification service consolidated to the Group was HK$6,739,000 and the segment recorded a loss of HK$2,737,000.

The number of direct drinking water machine installed up to March 31, 2009 was 64,000 units and the sales offices and an agency network have been set up in major cities in the PRC including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Suzhou, Fuzhou, Xiamen, Handan, Xi'an, Liaoning, Tianjin, Shenyang and Dongguan which provide sales and after-sale services for our products.

Air and water purification equipment and system

SH Comfort maintains close relationship and cooperation with famous universities and institutions in China to continuously research into product development and technology. The products of and technology used by SH Comfort have received wide recognition from various organizations and are sold to and installed at food processing factories, auto manufacturing plants and hospitals which require high standard of purification in their facilities. Well-known food enterprises such as Mengniu, Yili, Bright Dairy, Fuji, Chaoda and Strong Group are customers of SH Comfort. SH Comfort also provided air purification facilities to the food processing factories of the food suppliers for 2008 Beijing Olympic Games and the research bases of an aerospace project (嫦娥奔月計劃) in the PRC.

The sales of the equipment and system also did not contribute much to the Group for the current year as the result was consolidated to the Group since February 2009 and such period was the slack market just after the Chinese New Year holidays. In addition, the global financial tsunami also caused slow down in development and expansion plan of certain customers of SH Comfort which in return affected the business of the purification equipment and system business. The revenue resulted from the sales and installation of the purification equipment and system for the current year was HK$ 9,993,000 and the segment recorded a profit of HK$402,000.

Garment business

The Group's turnover for the current year was mainly contributed by the garment business. However, as a result of the global financial tsunami, the number of orders from the customers in the United States decreased significantly. The turnover from sales of garment products for the year ended March 31, 2009 was HK$43,801,000, representing a significant decrease of 75.41% compared with HK$178,096,000 in the year ended March 31, 2008. Together with the significant appreciation of Renminbi which had caused an escalation in the costs of sales, the garment business recorded an operating loss of HK$3,122,000 for the year ended March 31, 2009 (2008: profit of approximately HK$14,530,000).

FINANCIAL REVIEW

Liquidity

The current ratio of the Group as at March 31, 2009 and 2008 were approximately 0.58 and 3.93 respectively. The Group recorded a net current liabilities of HK$133,957,000 as at March 31, 2009 whereas net current assets of HK$227,777,000 was recorded at March 31, 2008. The sharp decrease in current ratio and the net current liabilities recorded at March 31, 2009 were mainly due to the reclassification of the convertible bonds as current liability in the current year as the convertible bonds will mature on December 24, 2009. However, HK$120,000,000 convertible bonds were converted in May 2009 and the substantial shareholder have already informed the Company of its intention to convert the remaining HK$64,500,000 convertible bonds before the maturity date. Disregarding the effect of the convertible bonds, the current ratio and net current assets position would have improved significantly.

Management's Statement

Gearing ratio

At March 31, 2009, the Group had: (1) outstanding repayable principal balance of the convertible bonds of HK$184,500,000 (2008: HK$184,500,000); (2) other borrowings of HK$9,070,000 (2008: HK$36,000,000) which were interest-bearing at 12% per annum; and (3) amount due to a director of a subsidiary of HK$25,255,000 (2008: Nil) which was interest free. The gearing ratio, calculated as a ratio of total borrowings to shareholders' equity, was 0.53 as at March 31, 2009 (2008: 3.15). The great improvement in the gearing ratio at March 31, 2009 was mainly due to significant increase in the shareholders' equity as a result of the HK$383,620,000 Non-voting Convertible Preference Shares for the acquisition of Park Wealth.

Financial resources

The Group currently finances its operations mainly by internally generated funds, other loans, convertible bonds and other convertible equity instruments. The management believes that the Group will generate its liquidity from business operations and will consider making use of further equity financing when necessary.

Capital structure

The creation and designation of 200,000,000 shares of HK$0.01 each in the authorized share capital of the Company as Non-voting Convertible Preference Shares was approved at a special general meeting held on 11 February 2009 in order to prepare for the payment of consideration for the acquisition of Park Wealth. The authorized share capital for ordinary shares was reduced from 50,000,000,000 shares to 49,800,000,000 shares.

The value of the Non-Voting Convertible Preference Shares for acquisition of Park Wealth recognised in the financial statement at March 31, 2009 was HK$383,620,000, which was based on the valuation performed by a professional valuer as at February 12, 2009, the completion date of the Acquisition.

There was no change in the issued ordinary share capital during the year. As at March 31, 2008 and 2009, the Company had 337,031,016 ordinary shares in issue.

Total shareholders' equity of the Group as at March 31, 2009 amounted to approximately HK$414,918,000 (2008: HK$69,923,000).

Charges on assets

The share of a subsidiary of the Company had been pledged to secure a borrowing of HK$36,000,000 at 31 March 2008. Such borrowing was fully repaid in the current year and there are no charge on assets of the Group at March 31, 2009.

Contingent liabilities

As at March 31, 2009, the Group had no contingent liabilities (2008: Nil).

Foreign exchange exposure

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

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On February 12, 2009, the Group successfully completed the acquisition of the 100% issued share capital of Park Wealth, whose principal asset is the holding of a 100% equity interest in SH Comfort and its subsidiaries (the "SH Comfort Group"). SH Comfort Group is principally engaged in the manufacturing and leasing of direct drinking water machines and production and installation of air and water purification equipment and system in the PRC.

The consideration for the Acquisition was satisfied by non-redeemable Non-voting Convertible Preference Shares issued by the Company and is subject to downward adjustment if the profits of Park Wealth for the year ending December 31, 2009 do not meet the minimum guaranteed profit of HK$100,000,000. The value of the Non-voting Convertible Preference Shares was recognised in the financial statement at HK$383,620,000. A goodwill on acquisition of HK$369,535,000 was recognised.

In conjunction with the Acquisition, the Group entered into a loan agreement on the same date to provide a facility in an aggregate principal amount of up to HK$80,000,000 to Park Wealth to speed up the expansion of the business of the SH Comfort Group.

There was no material disposals of subsidiaries during the year ended March 31, 2009.

Management's Statement

EMPLOYMENT AND REMUNERATION POLICY

As at March 31, 2009, the Group had approximately 18 and 1,493 employees in Hong Kong and the PRC respectively.

The employees salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff.

The Group also has a discretionary share option scheme in place which is designed to award employees for their performance. During the year ended March 31, 2009, 8,400,000 share options were granted to the directors and employees of the Group.

FUTURE PLAN AND PROSPECTS

The financial tsunami prompted by the sub-prime mortgage crisis in the US and spread out globally caused a hard time for the Group as the drop in consumption power in the United States affected severely our garment business as United States is our major market. However, this also urged our management to explore potential investment opportunities to diversify our business scope and maximize the income source. The acquisition of Park Wealth during the year is the first important move of the Company.

The Directors consider that the growth potential of water and air purification business in the PRC is immense. Although the global economic downturn had slowed down the expansion plan of certain customers to purchase and install air and water purification equipment and system recently, under the policies and rules such as the 食品安全行動計劃 (Food Safety Action Plan*) implemented by the Ministry of Health of the PRC in 2003, the 節能減排綜合性工作方案 (Comprehensive Working Scheme for Energy Conservation and Reduction of Pollution*) promulgated by the State Council in June 2007 and the 中華人民共和國食品安全法 (Food Safety Law*) passed in February 2009, the management are confident that the demand for additional purification equipment and system to improve the hygiene and sterilization facilities by the food manufacturers and processors will increase once the economy recovers.

Management's Statement

On the other hand, the general public in the in the PRC is becoming increasingly affluent and more conscious about safety of foods and beverages after the exposure of incidents like "Sanlu milk scandal" and the contamination of bottled water in the PRC. It is expected that direct drinking water machines which produce clean and purified water will become more popular in the PRC. The Directors are optimistic about the prospects of this business and more resources will be invested to support the development of this business. Promotion campaign will be launched to increase the popularity of our own registered brand name of "Ozone Comfort" (浩澤.康福特) to capture market share and secure a market leader position.

In May 2009, HK$120 million of convertible bonds in total had been converted to ordinary shares of the Company and the substantial shareholder have already informed the Company of its intention to convert the remaining HK$64,500,000 convertible bonds before the maturity date. Such moves showed that the substantial shareholder and other bondholders have great confidence in the future development of the Company.

With the strong support of the substantial shareholder and other bondholders, the management will continue to secure other high growth potential projects in the near future and promise to utilize the resources to maximize the profitability of the Group and generate satisfactory return to the shareholders.

APPRECIATION

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

By Order of the Board

Chaoyue Group Limited

Yuen Leong

Director

Hong Kong, June 25, 2009

Biographical Details of Directors

YUEN LEONG — Executive Director

Mr. Yuen Leong, aged 51, was appointed as an Executive Director of the Company on January 1, 2008. Mr. Yuen holds a master degree in mechanical engineering from the Shanghai Jiao Tong University and was a senior research analyst of 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1991. Mr. Yuen is a director of Origin Seed Technology Inc., a company listed on Nasdaq. Mr. Yuen has over ten years of experience in corporate management and operation.

CHEN YE — Independent Non-Executive Director

Ms. Chen Ye, aged 79, was appointed as an Independent Non-Executive Director of the Company on January 1, 2008. Ms. Chen holds a bachelor degree in architecture from 東北工學院 (Northeast Industrial College) (now Northeastern University) and is currently the senior consultant to 全國十八城市土地管理廳局長聯席會 (the Joint Committee of Ministers of Land Administration Bureau from 18 cities of the state). Ms. Chen has held various senior positions in government departments in the PRC, including as the Senior Planner, Architect and Deputy Chief of 國家建委城建總局，建設部，規劃局 (the Ministry of National Planning Bureau, Ministry of Construction); and the Deputy Chief of 國家土地管理局（現合併為國土資源部）(The State Land Administration Bureau) (now Ministry of Land and Resources).

CHAN WAI DUNE — Independent Non-Executive Director

Mr. Chan Wai Dune, aged 56, was appointed as an Independent Non-Executive Director of the Company on January 1, 2008. Mr. Chan has over 28 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of the Chinese People's Political Consultative Conference of the Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. Mr. Chan was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan is currently the managing director of CCIF CPA Limited. Mr. Chan is also an independent non-executive director of five Hong Kong Listed companies namely, Minmetals Resources Limited, Heng Xin China Holdings Limited, Jinheng Automotive Safety Technology Holdings Limited. Sam Woo Holdings Limited and Welling Holding Limited. In the past year, he was an independent non-executive director of each of Chuang's China Investments Limited, Chuang's Consortium International Limited and Hunan Nonferrous Metals Corporation Limited.

Mr. Chan was a non-executive director of Pickquick Plc. ("Pickquick"), a company incorporated in the United Kingdom prior to its dissolution on 9 May 2004 as a result of creditors' voluntary liquidation. The principal activity of Pickquick was the production and sale of golf products. The legal proceeding was commenced by the creditors against Pickquick on 16 February 2001 on the ground that it failed to pay a claim in the amount of approximately GBP903,199. Mr. Chan has confirmed that he was not liable for any liability as a result of the dissolution of Pickquick.

LAM MAN KIT, DOMINIC Independent Non-Executive Director

Dr. Lam Man Kit, Dominic, aged 61, was appointed as an Independent Non-Executive Director of the Company on January 1, 2008. Dr. Lam is the Chairman of the World Eye Organization. Dr. Lam obtained a doctorate degree in Medical Biophysics in 1970. He was appointed as Assistant Professor at Harvard Medical School and subsequently Professor of Biotechnology and Ophthalmology at Baylor College of Medicine. In 1988, Dr. Lam was invited to be the Founding Director of the Hong Kong Institute of Biotechnology. In 1990, Dr. Lam was appointed a member of the US President's Committee on the Arts and Humanities and awarded the KPMG Peat Marwick's High Tech Entrepreneur of the Year. Since January 2003, Dr. Lam was an independent non-executive director of New World TMT Limited, a company previously listed on the main board of the Stock Exchange and was privatized in March 2006. Dr. Lam is currently the director and chairman of New Legend Group Ltd., a company listed in Toronto Venture Exchange, Canada.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is committed to promote good corporate governance to safeguard the interests of shareholders. The Company set out its corporate governance practices by reference to the Code Provision on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company has complied with the CG Code throughout the financial year ended March 31, 2009 except for code provision A.2.1, which required that the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual. Details for the deviation with explanation are disclosed below.

DIRECTORS

The Board

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

The Board currently comprises four members. One Executive Director, namely: Mr. Yuen Leong; and three Independent Non-Executive Directors, namely: Ms. Chen Ye, Mr. Chan Wai Dune and Dr. Lam Man Kit, Dominic.

The biographical details of the Board members are set out on pages 10 and 11 of this Annual Report.

The Board meets regularly and additional meetings are convened as and when required to discuss the day-to-day operations and other affairs. The Board met 12 times during the year ended March 31, 2009 and the attendance record is set out below:

	Attendance/Number of Meetings
Executive Director	
Mr. Yuen Leong	12/12 (4/4)*
Independent Non-Executive Directors	
Ms. Chen Ye	12/12 (4/4)*
Mr. Chan Wai Dune	12/12 (4/4)*
Dr. Lam Man Kit, Dominic	12/12 (4/4)*

* Regular Board meetings

During the year, not less than 14 days notice is given of a regular Board meeting. For other Board meetings, the Board will first consult the Directors whether a short notice period is acceptable to them and if so, a Board meeting will be fixed accordingly. Directors are welcomed to include matters to be discussed in the agenda before the meetings. The Directors have to declare their interests in the subject matters to be considered in the relevant meeting and the director, who or whose associates have any interest in any proposed resolution, must abstain from voting in the relevant resolution and will not be counted in quorum.

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

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

Corporate Governance Report

Chairman and Chief Executive Officer

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

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

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

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

Board composition

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

Throughout the year, the number of Independent Non-Executive Directors in the Board is kept at three which represent more than one-third of the Board in order to maintain a strong independent element on the Board, which can exercise independent judgment and ensure balance of power and authority.

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

Appointments, re-election and removal

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

Directors appointed to fill a causal vacancy are subject to election by shareholders at the next annual general meeting after their appointment and every Director is subject to retirement by rotation at least once every three years.

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

Responsibilities of directors

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

The Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All existing Directors have confirmed with the Company that they have compiled with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year.

Supply of and access of information

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

BOARD COMMITTEES

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

(a) Remuneration Committee

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

The Company's objectives for its remuneration policy are to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the remuneration packages, market rates, workload and responsibilities and general economic situation would be taken into consideration. The chairman of the Committee will report the work, findings and recommendations to the Board after each meeting.

The existing Remuneration Committee comprises three Independent Non-Executive Directors, namely Dr. Lam Man Kit, Dominic (Chairman of the Remuneration Committee), Ms. Chen Ye and Mr. Chan Wai Dune.

The Remuneration Committee has held one meeting during the year ended March 31, 2009 and the attendance record is set out below:

Name of Remuneration Committee Members	**Attendance/Number of Meeting**
Dr. Lam Man Kit, Dominic *(Chairman)*	1/1
Ms. Chen Ye	1/1
Mr. Chan Wai Dune	1/1

(b) Nomination Committee

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

The Committee's objectives are to ensure formal, fair and transparent procedures for the new appointment and re-appointment of directors to the Board. The committee will review and assess candidates for directorship before recommending to the Board in order to ensure that the Board has members with the right profile of expertise, skill and ability as well as an appropriate balance of independent directors

The existing Nomination Committee comprises three Independent Non-Executive Directors, namely Ms. Chen Ye (Chairman of Nomination Committee), Mr. Chan Wai Dune and Dr. Lam Man Kit, Dominic.

The Nomination Committee has held one meeting in the year ended March 31, 2009 and the attendance record is set out below:

Name of Nomination Committee Members	Attendance/Number of Meeting
Ms. Chen Ye *(Chairman)*	1/1
Mr. Chan Wai Dune	1/1
Dr. Lam Man Kit, Dominic	1/1

(c) Audit Committee

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

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

The existing Audit Committee comprises of three Independent Non-executive Directors, namely Mr. Chan Wai Dune (Chairman of Audit Committee), Ms. Chen Ye and Dr. Lam Man Kit, Dominic, and none of whom is a former partner of the Company's existing auditing firm. Mr. Chan Wai Dune has the appropriate professional qualification, accounting or related financial management expertise as required under the Listing Rules.

The Audit Committee held two meetings in the year ended March 31, 2009 for considering re-appointment of auditor, reviewing the annual results of the Group for the year ended March 31, 2008 and the interim results of the Group for the six months ended September 30, 2008 and discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration, approving the scope of work for the internal control system review and reviewing the continuing connected transactions of the Group. Attendance record is set out below:

Name of Audit Committee Members	Attendance/Number of Meeting
Mr. Chan Wai Dune *(Chairman)*	2/2
Ms. Chen Ye	2/2
Dr. Lam Man Kit, Dominic	2/2

ACCOUNTABILITY AND AUDIT

Financial reporting

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

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement of the auditor of the Company about their responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 32 and 33.

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

Corporate Governance Report

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Company has engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group including recommendations to enhance the overall internal control system for the year ended March 31, 2009. The internal control review report has been approved by Audit Committee and the Board. Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls system.

Auditor's remuneration

For the year ended March 31, 2009, the Group's external auditors provided the following services to the Group:

	HK$'000
Statutory audit and interim review	1,200
Taxation	41
Other advisory service	2,180
	3,421

SHAREHOLDERS RELATIONS

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

To ensure the shareholders know their right for demanding a poll, the procedures for demanding and conducting a poll is disclosed in all Company's circulars to shareholders accompanying the notice of general meetings and these procedures will be explained by the chairman of each general meeting held in 2008 at the commencement of the meeting.

On behalf of the Board

Chaoyue Group Limited

Yuen Leong

Director

Hong Kong, June 25, 2009

Directors' Report

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Company for the year ended March 31, 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the financial statements.

CHANGE OF COMPANY'S NAME

By a special resolution passed by the shareholders of the Company on May 9, 2008, the name of the Company was changed from "Graneagle Holdings Limited" to "Chaoyue Group Limited 超越集團有限公司". The Chinese name being "鷹馳實業有限公司" which was adopted for identification purpose, was no longer be adopted.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended March 31, 2009 are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of final dividend for the year ended March 31, 2009.

SHARE CAPITAL

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

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders, which represent its accumulated profits, as at March 31, 2009 is HK$6,155,000 (2008: HK$30,130,000).

DIRECTORS

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

Executive Director:

Yuen Leong

Independent Non-Executive Directors:

Chen Ye

Chan Wai Dune

Lam Man Kit, Dominic

In accordance with bye-law 87 of the Company's Bye-law, Mr. Chan Wai Dune and Dr. Lam Man Kit, Dominic will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

Biographical details of Directors are set out on pages 10 and 11 of this Annual Report.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At March 31, 2009, the interests of the Directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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

Ordinary shares of HK$0.01 each of the Company

Name of Director	Total number of Shares interested	Options to subscribe for Shares of the Company	Number of Shares held under equity derivative	Capacity in which interests are held	Interests as to % to the issued share capital of the Company
Yuen Leong	251,247,388 *(Note 1)*	–	–	Interest of a controlled corporation	74.55%
	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%
	–	–	830,000,000 *(Note 3)*	Interest of a controlled corporation	246.27%
Chen Ye	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%
Chan Wai Dune	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%
Lam Man Kit, Dominic	–	900,000 *(Note 2)*	–	Beneficial owner	0.27%

Notes:

(1) These 251,247,388 shares are held by Long Grand limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 251,247,388 shares held by Long Grand Limited for the purposes of the SFO.

(2) Pursuant to the share option scheme adopted by a resolution of the Shareholders on September 17, 2004, these share options were granted on July 17, 2008 and are exercisable at HK$5.32 per Share from July 17, 2008 to September 16, 2014.

(3) Long Grand Limited also held convertible bonds in the amount of HK$124,500,000 which are convertible into 830,000,000 new shares at an initial conversion price of HK$0.15 per share (subject to adjustments) with warrants (one warrant for every four new shares to be issued upon conversion of the convertible bonds) attached conferring right to subscribe up to 207,500,000 new shares at an initial subscription price of HK$0.15 per share (subject to adjustments). By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the respective 830,000,000 shares to be issued to Long Grand Limited upon conversion of the convertible bonds for the purposes of the SFO.

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

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

Save as disclosed above, as at March 31, 2009, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO), which had been entered in the register kept by the Company, pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option scheme (the "Scheme") adopted on September 17, 2004 by a resolution passed by the Company's shareholders on September 17, 2004, the directors of the Company may grant options as incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") for the shares in the Company within a period of ten years commencing from September 17, 2004. 3,600,000 share options were granted to the Directors on July 17, 2008 at an exercise price of HK$5.32 per ordinary share of the Company. Details of the scheme and the movement of share options during the year are set out in note 36 to the consolidated financial statements.

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

SUBSTANTIAL SHAREHOLDERS

At March 31, 2009, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Interest in shares	Nature of interest	Percentage of the Company's issued share capital
Long Grand Limited *(Note 1)*	251,247,388	Direct beneficial owner	74.55%
	830,000,000 *(Note 2)*	Direct beneficial owner	246.27%

Notes:

(1) Long Grand Limited is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong.

(2) Long Grand Limited also held convertible bonds in the amount of HK$124,500,000 which are convertible into 830,000,000 new Shares at an initial conversion price of HK$0.15 per Share (subject to adjustments) with warrants (one warrant for every four new Shares to be issued upon conversion of the convertible bonds) attached conferring right to subscribe up to 207,500,000 new Shares at an initial subscription price of HK$0.15 per Share (subject to adjustments). By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the respective 830,000,000 Shares to be issued to Long Grand Limited upon conversion of the convertible bonds for the purpose of the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at March 31, 2009.

DIRECTORS' INTEREST IN CONTRACTS

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

CONTINUING CONNECTED TRANSACTION

The Company's wholly-owned subsidiary, Koniko Company Limited ("Koniko"), entered into two tenancy agreements with Crown Regent Enterprise Limited ("the Landlord") to lease the Property (Suite 1114, Lippo Sun Plaza, 28 Canton Road, Kowloon, Hong Kong) during the year. The first agreement was made on April 1, 2008 with tenor of half year from April 1, 2008 to September 30, 2008 at a monthly rental of HK$84,292 in cash. The second agreement was made on October 1, 2008 with tenor of half year from October 1, 2008 to March 31, 2009 at a monthly rental of HK$82,000 in cash. The Landlord is an associate of Mr. Ling Tai Yuk, John, who is the director of Koniko. The total rental payment to the Landlord by the Company was HK$997,752 during the year.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors and confirmed that the continuing connected transaction have received the approval of the Board of Directors of the Company and have conducted on terms in accordance with the terms of the relevant agreements governing the transaction.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended March 31, 2009, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the year.

BORROWINGS AND CONVERTIBLE BONDS

Particular of borrowings and convertible bonds of the Group as at March 31, 2009 are set out in notes 24 and 28 to the financial statements.

EMOLUMENT POLICY

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

The Company has adopted the share option scheme and granted share options to Directors and eligible employees for the year ended March 31, 2009. Details of the scheme and the movements in the share options granted are set out in note 36 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes operated by the Group are set out in note 37 to the financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and other assets and liabilities of the Group for the last five financial years is set out on page 114 of this Annual Report.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 12 to 21.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended March 31, 2009.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended March 31, 2009:

1. The Group's largest customer and five largest customers accounted for approximately 71.4% (2008: 100%) and 73.9% (2008: 100%) respectively of the Group's total turnover for the year.

2. The Group's largest supplier and five largest suppliers accounted for approximately 20.8% (2008: 14.7%) and 36.2% (2008: 43.3%) respectively of the Group's total purchases for the year.

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

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

AUDITOR

The financial statements for the year ended March 31, 2009 have been audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Yuen Leong

Director

Hong Kong, June 25, 2009

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHAOYUE GROUP LIMITED
超越集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Chaoyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 113, which comprise the consolidated balance sheet as at March 31, 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at March 31, 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
June 25, 2009

Consolidated Income Statement

For the year ended March 31, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Turnover	*8*	**60,533**	178,096
Cost of sales		**(53,515)**	(153,671)
Gross profit		**7,018**	24,425
Other income	*9*	**3,428**	2,279
Distribution and selling expenses		**(9,002)**	(938)
Administrative and other expenses		**(44,436)**	(11,236)
Finance costs	*10*	**(12,738)**	(5,021)
Changes in fair value of derivative financial instruments	*28*	**2,566**	3,405
Gain on disposal of subsidiaries	*33*	**–**	755
(Loss) profit before taxation		**(53,164)**	13,669
Income tax credit (charge)	*11*	**627**	(1,426)
(Loss) profit for the year	*12*	**(52,537)**	12,243
(Loss) earnings per share	*14*		
– basic		**(15.59) HK cents**	5.74 HK cents
– diluted		**(15.59) HK cents**	1.95 HK cents

Consolidated Balance Sheet

At March 31, 2009

	NOTES	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**115,623**	2,374
Intangible assets	*16*	**91,494**	–
Goodwill	*17*	**369,535**	–
		576,652	2,374
CURRENT ASSETS			
Inventories	*18*	**5,465**	25,118
Amounts due from customers for contract work	*19*	**4,520**	–
Trade and other receivables	*20*	**24,649**	14,771
Bank balances and cash	*21*	**147,142**	265,532
		181,776	305,421
CURRENT LIABILITIES			
Amounts due to customers for contract work	*19*	**7,967**	–
Trade and other payables	*22*	**49,101**	18,984
Amount due to a director of a subsidiary	*23*	**25,255**	–
Taxation payable		**2,788**	429
Borrowings	*24*	**9,070**	36,000
Warranty provision	*25*	**950**	–
Deferred income	*26*	**28,135**	–
Convertible bonds	*28*	**172,802**	–
Derivative financial instruments	*28*	**19,665**	22,231
		315,733	77,644
NET CURRENT (LIABILITIES) ASSETS		**(133,957)**	227,777
TOTAL ASSETS LESS CURRENT LIABILITIES		**442,695**	230,151

Consolidated Balance Sheet

At March 31, 2009

	NOTES	2009 HK$'000	2008 HK$'000
NON-CURRENT LIABILITIES			
Deferred income	*26*	**4,904**	–
Deferred taxation	*27*	**22,873**	19
Convertible bonds	*28*	**–**	160,209
		27,777	160,228
NET ASSETS		**414,918**	69,923
CAPITAL AND RESERVES			
Share capital	*30*	**3,370**	3,370
Reserves		**411,548**	66,553
TOTAL EQUITY		**414,918**	69,923

The financial statements on pages 34 to 113 were approved and authorised for issue by the Board of Directors on June 25, 2009 and are signed on its behalf by:

Yuen Leong
DIRECTOR

Lam Man Kit, Dominic
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended March 31, 2009

	Share capital HK$'000	Non-voting convertible preference shares HK$'000 *(Note i)*	Share premium HK$'000	Contributed surplus *(note 31)* HK$'000	Capital redemption reserve HK$'000 *(Note ii)*	Share option reserve HK$'000 *(Note iii)*	Translation reserve HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000
At April 1, 2007	1,670	–	–	52,385	3,781	–	694	27,909	86,439
Exchange difference arising on translation of foreign operations, recognised directly in equity	–	–	–	–	–	–	101	–	101
Transfer to profit or loss on disposal of foreign operations	–	–	–	–	–	–	(795)	–	(795)
Profit for the year	–	–	–	–	–	–	–	12,243	12,243
Total recognised income for the year	–	–	–	–	–	–	(694)	12,243	11,549
Dividend paid	–	–	–	(730)	–	–	–	(52,720)	(53,450)
Issue of shares	1,700	–	23,800	–	–	–	–	–	25,500
Issuing cost	–	–	(115)	–	–	–	–	–	(115)
At March 31, 2008 and April 1, 2008	3,370	–	23,685	51,655	3,781	–	–	(12,568)	69,923
Exchange difference arising on translation of foreign operations, recognised directly in equity	–	–	–	–	–	–	12	–	12
Loss for the year	–	–	–	–	–	–	–	(52,537)	(52,537)
Total recognised income and expense for the year	–	–	–	–	–	–	12	(52,537)	(52,525)
Share-based payments	–	–	–	–	–	13,900	–	–	13,900
Consideration for the acquisition of subsidiaries	–	383,620	–	–	–	–	–	–	383,620
At March 31, 2009	3,370	383,620	23,685	51,655	3,781	13,900	12	(65,105)	414,918

Notes:

(i) The non-voting convertible preference shares are the contingent consideration for acquisition of 100% equity interests in Park Wealth International Limited and its subsidiaries (the "Park Wealth Group"), details are set out in note 29.

(ii) The capital redemption reserve represents amounts transferred from contributed surplus upon the repurchase of the Company's shares.

(iii) The share option reserve represents the reserve recognised as a result of the grant of share options of the Company to certain directors and employees of the Group.

Consolidated Cash Flow Statement

For the year ended March 31, 2009

	NOTES	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(53,164)**	13,669
Adjustments for:			
Changes in fair value of derivative financial instruments		**(2,566)**	(3,405)
Depreciation of property, plant and equipment		**1,921**	1,268
Amortisation of intangible assets		**2,506**	–
Loss on disposal of property, plant and equipment		**1,441**	2
Gain on disposal of subsidiaries		**–**	(755)
Allowances for inventories		**–**	1,763
Impairment of trade receivables recognised		**1,689**	–
Interest income		**(2,867)**	(2,226)
Finance costs		**12,738**	5,021
Warranty charges		**405**	–
Share-based payment expenses		**13,900**	–
Operating cash flows before movements in working capital		**(23,997)**	15,337
Decrease in inventories		**24,823**	3,834
Increase in amounts due from customers for contract work		**(1,924)**	–
Decrease in trade and other receivables		**17,764**	3,375
Decrease in amounts due to customers for contract work		**(3,249)**	–
(Decrease) increase in trade and other payables		**(982)**	511
Decrease in warranty provision		**(278)**	–
Increase in deferred income		**5,555**	–
Cash generated from operations		**17,712**	23,057
Hong Kong Profits Tax paid		**(448)**	(1,124)
NET CASH FROM OPERATING ACTIVITIES		**17,264**	21,933

Consolidated Cash Flow Statement

For the year ended March 31, 2009

	NOTES	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(31,351)**	(1,028)
Net cash from acquisition of subsidiaries	*32*	**8,605**	–
Interest received		**2,867**	2,226
Proceeds from disposal of property, plant and equipment		**197**	2
Net cash from disposal of subsidiaries	*33*	**–**	120
Decrease in pledged bank deposit		**–**	9,040
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(19,682)**	10,360
FINANCING ACTIVITIES			
Repayment of borrowings		**(116,000)**	–
Interest paid		**–**	(1,440)
Dividend paid		**–**	(53,450)
Proceeds from issue of new shares		**–**	25,500
Issue of convertible bonds		**–**	184,500
Issue cost of new shares and convertible bonds		**–**	(2,154)
New borrowing raised		**–**	36,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(116,000)**	188,956
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(118,418)**	221,249
CASH AND CASH EQUIVALENTS AT APRIL 1		**265,532**	44,182
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**28**	101
CASH AND CASH EQUIVALENTS AT MARCH 31, REPRESENTED BY BANK BALANCES AND CASH		**147,142**	265,532

1. GENERAL

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

In prior years, the Company's functional currency was Hong Kong dollars ("HKD"). Due to the continuing expansion of the Group's business operations in the People's Republic of China (the "PRC"), the directors have determined that the functional currency of the Company has been changed from HKD to Renminbi ("RMB") since the acquisition of the Park Wealth Group in February 2009 as disclosed in note 32. The directors have made an assessment of the impact of the change of the functional currency of the Company and concluded that there was no material effect on the results and financial position of the Group.

The consolidated financial information are presented in HKD as the directors consider that HKD is the appropriate presentation currency as the management of the Company controls and monitors the performance and financial position of the Group by using HKD.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 39.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As disclosed in note 40, a total of HK$120,000,000 principal amount of the convertible bonds issued by the Company are converted into shares of the Company after the balance sheet date and Long Grand Limited, the ultimate holding company and the holder of the remaining convertible bonds of the Company, has agreed to convert the remaining convertible bonds amounting to HK$64,500,000 before the maturity date, which is December 24, 2009. Accordingly, the financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the accounting periods beginning on or after April 1, 2008.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
Hong Kong (International Financial Reporting Interpretations Committee) ("HK (IFRIC)") – Interpretations ("Int") 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKAS 1 (Revised)	Presentation of Financial Statements [3]
HKAS 23 (Revised)	Borrowing Costs [3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [4]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [3]
HKAS 39 (Amendment)	Eligible Hedged items [4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [3]
HKFRS 3 (Revised)	Business Combinations [4]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments [3]
HKFRS 8	Operating Segments [3]
HK (IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded Derivatives [5]
HK(IFRIC) – INT 13	Customer Loyalty Programmes [6]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate [3]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation [7]
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners [4]
HK(IFRIC) – INT 18	Transfer of Assets from Customers [8]

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

[1] *Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009*

[2] *Effective for annual periods beginning on or after January 1, 2009, July 1, 2009 and January 1, 2010, as appropriate*

[3] *Effective for annual periods beginning on or after January 1, 2009*

[4] *Effective for annual periods beginning on or after July 1, 2009*

[5] *Effective for annual periods ending on or after June 30, 2009*

[6] *Effective for annual periods beginning on or after July 1, 2008*

[7] *Effective for annual periods beginning on or after October 1, 2008*

[8] *Effective for transfers on or after July 1, 2009*

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the Group's annual reporting period beginning on or after April 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. HKAS 23 (Revised) requires the capitalisation of borrowing costs of the Group that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of assets, on a prospective basis.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

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

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Revenue recognition

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Contract revenue is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

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

Property, plant and equipment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

The Group as lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit scheme

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

Borrowing costs

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

Taxation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Textile quotas

The cost of acquiring temporary textile quotas are dealt with in the consolidated income statement in the year in which they are utilised. Textile quotas allocated by the authorities are also expensed in the consolidated income statement.

Intangible assets

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. The intangible assets are amortised on a straight line basis over the respective periods of the useful life.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is decognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised in the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by reference to the value of work carried out during the year to the estimated total revenue of the contract.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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

Financial instruments

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

Financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Impairment of loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of loans and receivables (Continued)

Objective evidence of impairment could include:

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

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

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

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, it is written off against the allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of loans and receivables (Continued)

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bonds

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

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

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and embedded derivatives components in proportion to their relative fair values. Transaction costs relating to the embedded derivatives component are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Non-voting convertible preference shares

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

When the non-voting convertible preference shares are converted, the non-voting convertible preference shares is transferred to ordinary share capital and share premium.

Transaction costs relating to issuance of the equity instrument are charged directly to equity.

Other financial liabilities

Other financial liabilities including trade and other payables and other borrowing are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment of goodwill and property, plant and equipment

Determining whether goodwill and property, plant and equipment are impaired requires an estimation of recoverable amount of the cash-generating units ("CGUs") to which these assets has been allocated which is based on the value in use of the relevant CGUs. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. When the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill and property, plant and equipment at March 31, 2009 was approximately HK$369,535,000 and HK$115,623,000 (2008: Nil and HK$2,374,000), respectively.

Impairment of intangible assets

As at March 31, 2009, the management reconsidered the recoverability of intangible assets, which is included in its consolidated balance sheet, of approximately HK$91,494,000 (2008: Nil). Management has evaluated the recoverability of impairment of intangible assets by way of discounted cash flow analysis on sales forecast and discount rate and a considerable amount of judgment is required. If the actual sales forecasts are less than expected, impairment may be required.

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

Depreciation and amortisation

The Group depreciates the property, plant and equipment and intangible assets over their estimated useful lives and after taking into account of their estimated residual values, where appropriate, using the straight line method. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

Allowance for bad and doubtful debts

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

Revenue recognition of construction contracts

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

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

Revenue recognition of leasing income from direct drinking water purification machines

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

Provision

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

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the amount due to a director of a subsidiary disclosed in note 23, borrowings disclosed in note 24, and convertible bonds disclosed in note 28, cash and cash equivalents disclosed in note 21, and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

6. CAPITAL RISK MANAGEMENT *(Continued)*

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

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009	2008
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**164,115**	280,118
Financial liabilities		
Amortised cost	**236,069**	213,180
Derivative financial instruments	**19,665**	22,231
	255,734	235,411

(b) Financial risk management objectives and policies

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

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Foreign currency risk management

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

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follow:

	2009	2008
	HK$'000	HK$'000
Assets		
HKD	**47,828**	–
United States Dollars ("USD")	**96,194**	31,173
Liabilities		
HKD	**1,452**	–

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Foreign currency risk management *(Continued)*

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against the relevant foreign currencies. 5% is the sensitivity rate used in management's assessment of the possible reasonably change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number indicates an increase in loss for the year 2009 or a decrease in profit for the year 2008 where the RMB (2008: HKD) strengthens against the relevant currency. For a 5% weakening of the RMB (2008: HKD) against the relevant currency, there would be an equal and opposite impact on the result for the year.

	2009	2008
	HK$'000	HK$'000
RMB against HKD		
Result for the year	**(2,319)**	–
RMB against USD		
Result for the year	**(4,810)**	(1,559)

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to bank balances at prevailing market rate, fixed-rate borrowing, and the convertible bonds issued by the Group (see notes 21, 24 and 28 for details of bank balances, borrowings and convertible bonds, respectively). The Company and the Group currently do not enter into any hedging instrument for fair value interest rate risk.

Credit risk management

As at March 31, 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

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

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk management

The Group has net current liabilities of HK$133,957,000 as at March 31, 2009. The holders of the Convertible Bonds has agreed to convert the Convertible Bonds in addition to those Convertible Bonds already converted in May 2009. Accordingly, the directors of the Company consider liquidity risk of the Group has been minimised.

The Group relies on other borrowings and convertible bonds as a significant source of liquidity. As at March 31, 2008, the Group had available unutilised short-term bank loan facilities of approximately HK$278,000 and there is no unutilised bank loan facility as at March 31, 2009.

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk management *(Continued)*

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amount at balance sheet date
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at March 31, 2009							
Non-derivative financial liabilities							
Trade payables	–	**13,575**	**6,019**	–	–	**19,594**	**19,594**
Other payables	–	**9,348**	–	–	–	**9,348**	**9,348**
Amount due to a director of a subsidiary	–	**25,255**	–	–	–	**25,255**	**25,255**
Borrowings	**12%**	–	**3,503**	**5,896**	–	**9,399**	**9,070**
Convertible bonds	**7.95%**	–	–	**184,500**	–	**184,500**	**172,802**
		48,178	**9,522**	**190,396**	–	**248,096**	**236,069**
Derivative financial instruments	–	–	–	–	–	–	**19,665**
As at March 31, 2008							
Non-derivative financial liabilities							
Trade payables	–	15,135	–	–	–	15,135	15,135
Other payables	–	1,836	–	–	–	1,836	1,836
Borrowings	12%	360	1,080	38,880	–	40,320	36,000
Convertible bonds	7.95%	–	–	–	184,500	184,500	160,209
		17,331	1,080	38,880	184,500	241,791	213,180
Derivative financial instruments	–	–	–	–	–	–	22,231

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

- the fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transactions; and

- the fair value of derivative financial instruments is calculated based on binomial model.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the financial information approximate their fair value.

8. TURNOVER AND SEGMENT INFORMATION

	2009	2008
	HK$'000	HK$'000
Sales of goods	**45,790**	178,096
Contract revenue	**8,004**	–
Rental income	**6,739**	–
Total turnover	**60,533**	178,096

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(A) Business segments

During the year ended March 31, 2008, the Group's entire turnover and more than ninety percent of the Group's assets are contributed by its garment business and therefore no business segment analysis is presented for 2008.

During the year ended March 31, 2009, the Group is principally engaged in leasing of direct drinking water purification machines, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system in the PRC and manufacturing and trading of garments in the PRC and Hong Kong. Inter-segment sales were charged at market price or, where no market price was available, at cost plus a percentage of profit mark-up. The divisions which are the basis on which the Group reports its primary segment information are as follows:

Principal activities are as follows:

Direct drinking water	–	Lease of direct drinking water purification machines
Purification equipment	–	Manufacturing and sales of air purification and water purification equipments
Environmental engineering	–	Construction and installation of air purification and sewage treatment system
Garment	–	Manufacturing and sales of garments

The segment information about these business segments is presented below.

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(A) Business segments *(Continued)*

Revenue and results

For the year ended March 31, 2009

	Direct drinking water	Purification equipment	Environmental engineering	Garment	Elimination	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE						
External sales	6,739	1,989	8,004	43,801	–	60,533
Inter-segment sales	–	21,100	–	–	(21,100)	–
Total	6,739	23,089	8,004	43,801	(21,100)	60,533
RESULT						
Segment result	(2,737)	(1,026)	1,428	(3,122)	(1,919)	(7,376)
Unallocated income						2,867
Unallocated corporate expenses						(48,655)
Loss before income tax						(53,164)
Income tax credit						627
Loss for the year						(52,537)

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(A) Business segments *(Continued)*

Consolidated balance sheet

At March 31, 2009

	Direct drinking water	Purification equipment	Environmental engineering	Garment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Segment assets	566,637	30,524	12,747	–	609,908
Unallocated corporate assets					148,520
Total assets					758,428
LIABILITIES					
Segment liabilities	60,105	11,588	17,681	183	89,557
Unallocated corporate liabilities					253,953
Total liabilities					343,510

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(A) Business segments *(Continued)*

Other information

For the year ended March 31, 2009

	Direct drinking water	Purification equipment	Environmental engineering	Garment	Unallocated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Capital additions	5,208	26,117	–	–	26	31,351
Capital additions arise on acquisition of subsidiaries	179,522	–	–	–	–	179,522
Goodwill	369,535	–	–	–	–	369,535
Depreciation of property, plant and equipment	962	336	–	486	137	1,921
Amortisation of patents	2,506	–	–	–	–	2,506
(Gain) loss on disposal of property, plant and equipment	(19)	–	–	1,460	–	1,441
Allowance on bad and doubtful debts	1,077	265	347	–	–	1,689

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(B) Geographical segments

The Group's operations are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's revenue by geographical market based on the geographical location of customers, irrespective of the origin of the goods.

	2009 HK$'000	2008 HK$'000
United States of America ("USA")	**43,801**	178,096
The PRC	**16,732**	–
	60,533	178,096

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
USA	**–**	9,553	**–**	–
Hong Kong	**1,378**	5,613	**26**	268
The PRC	**608,530**	27,097	**31,325**	760
	609,908	42,263	**31,351**	1,028

In addition, property, plant and equipment and goodwill arise on acquisition of subsidiaries are related to assets located in the PRC.

9. OTHER INCOME

	2009 HK$'000	2008 HK$'000
Bank interest income	**2,867**	2,226
Sales of scrap materials	**218**	–
Others	**343**	53
	3,428	2,279

10. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interests on convertible bonds *(note 28)*	**12,593**	3,384
Interests on borrowings wholly repayable within five years	**145**	1,637
	12,738	5,021

11. INCOME TAX (CREDIT) CHARGE

The income tax (credit) charge comprises:

	2009 HK$'000	2008 HK$'000
Hong Kong Profits Tax		
– current year	–	1,474
– under (over) provision in prior years	19	(5)
	19	1,469
Deferred taxation *(note 27)*	(646)	(43)
	(627)	1,426

11. INCOME TAX (CREDIT) CHARGE *(Continued)*

On June 26, 2008 the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profit for the year. No Hong Kong Profits Tax is payable since there is tax loss incurred in Hong Kong for the year ended March 31, 2009.

Taxation arising in the PRC is calculated based on the applicable tax rates on assessable profits, if applicable.

Shanghai Comfort Environment and Science Company Limited ("Shanghai Comfort"), a subsidiary acquired by the Group during the year ended March 31, 2009, is registered in Shanghai Pudong New Area and is subject to PRC income tax at a concessionary rate of 15% for the period from September 23, 2005 (date of establishment) to December 31, 2007. During 2008, Shanghai Comfort is regarded as advanced technology enterprises by local tax bureau and is entitled to the PRC income tax at concessionary rate of 15% from year 2008 to 2010.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on March 16, 2007, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from January 1, 2008. Except for Shanghai Comfort, the New Law and Implementation Regulations will change the tax rate from 33% to 25% for all other PRC subsidiaries from January 1, 2008 onwards.

11. INCOME TAX (CREDIT) CHARGE *(Continued)*

The income tax (credit) expenses for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2009	2008
	HK$'000	HK$'000
(Loss) profit before taxation	**(53,164)**	13,669
Tax at the domestic income tax rate of 25% (2008: 17.5%)	**(13,291)**	2,392
Tax effect of expenses that are not deductible in determining taxable profit	**5,970**	658
Tax effect of income that is not taxable in determining taxable profit	**(330)**	(2,065)
Under(over) provision in prior years	**19**	(5)
Tax effect of unrecognised tax losses	**7,005**	446
Tax (credit) charge for the year	**(627)**	1,426

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

12. (LOSS) PROFIT FOR THE YEAR

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

	2009	2008
	HK$'000	HK$'000
Directors' emoluments *(note 12(a))*	**7,257**	955
Other staff costs	**14,790**	3,896
Other staff retirement benefit scheme contributions	**267**	129
Total staff costs	**22,314**	4,980
Auditor's remuneration	**1,200**	550
Allowance on bad and doubtful debts	**1,689**	–
Allowances for inventories	**–**	1,763
Cost of inventories recognised as expenses	**50,422**	148,133
Depreciation of property, plant and equipment	**1,921**	1,268
Amortisation of intangible assets included in administrative expenses	**2,506**	–
Operating lease rentals in respect of:		
– rented premises	**2,011**	1,179
– office equipment	**18**	3
– motor vehicle	**–**	78
Textile quota expenses	**531**	3,775
Loss on disposal of property, plant and equipment	**1,441**	2
Rental income from direct drinking water machines	**(6,739)**	–

12. (LOSS) PROFIT FOR THE YEAR *(Continued)*

Notes:

(a) Information regarding directors' and employees' emoluments

The emoluments paid or payable to each of the four (2008: sixteen) directors are as follows:

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

	Executive director						Non-executive director		Independent non-executive director								
	Ling Tai Yuk, John	Kong Ho Pak	Pang Hon Chung	Fan Man Seung, Vanessa	Wong Chi Fai	Yuen Leong	Chau Wai Yin, Jonathan	Ng Tze Kin, David	Law Ka Ming, Michael	Yip Kam Man	Keir, James	Lee Tsoh Ching, Jonathan	Leung Shu Yin, William	Chen Ye	Chan Wai Dune	Lam Man Kit, Dominic	2008 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(note)	*(note)*	*(note)*	*(note)*	*(note)*		*(note)*	*(note)*	*(note)*	*(note)*	*(note)*	*(note)*	*(note)*				
Fees	27	27	27	27	27	150	20	27	27	27	27	27	65	50	50	50	655
Other emoluments																	
Salaries and other benefits	300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	300
	327	27	27	27	27	150	20	27	27	27	27	27	65	50	50	50	955

No directors waived any emoluments in both years ended March 31, 2009 and 2008.

Note: These directors resigned during the year ended March 31, 2008.

12. (LOSS) PROFIT FOR THE YEAR *(Continued)*

Notes: (Continued)

(b) Employees

The five highest paid individuals of the Group included three directors (2008: one director), whose emoluments are disclosed above. The emoluments of the remaining two (2008: four) highest paid employees are as follows:

	2009	2008
	HK$'000	HK$'000
Salaries and others	1,542	1,814
Share-based payments	6,619	–
Retirement benefit scheme contributions	24	34
	8,185	1,848

During the year ended March 31, 2009, the emolument of one of the two employees was between HK$3,500,001 and HK$4,000,000, and the remaining one was between HK$4,000,001 and HK$4,500,000 (2008: the emoluments of four of these employees were below HK$1,000,000).

During the year ended March 31, 2009 and 2008, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

13. DIVIDENDS

	2009	2008
	HK$'000	HK$'000
Dividends recognised as distribution during the year:		
Ordinary shares:		
Special dividend – HK29 cents per share for the year ended March 31, 2007	**–**	48,439
Final dividend paid – HK3 cents per share for the year ended March 31, 2007	**–**	5,011
	–	53,450

The directors do not recommend the payment of a final dividend for the year ended March 31, 2009.

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the equity holders of the Company is based on the following data:

	2009	2008
	HK$'000	HK$'000
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share, being (loss) profit for the year attributable to equity holders of the Company	**(52,537)**	12,243
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds		3,384
Changes in fair value of derivative financial instruments		(3,405)
Earnings for the purpose of diluted earnings per share		12,222
Number of shares		
Weighted average number of shares for the purpose of basic (loss) earnings per share	**337,031,016**	213,140,605
Effective of dilutive potential ordinary shares:		
Convertible bonds		333,616,438
Warrants		80,001,844
Weighted average number of ordinary shares for the purpose of diluted earnings per share		626,758,887

Note: The computation of diluted loss per share for the year ended March 31, 2009 does not take into account for the effect of share options granted and the conversion of convertible bonds and convertible preference shares and the warrants issued by the Company as these would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At April 1, 2007	16,825	4,168	2,373	1,986	–	25,352
Additions	481	278	–	269	–	1,028
Disposals	(65)	(180)	–	(124)	–	(369)
Disposal of subsidiaries	–	(364)	(141)	(48)	–	(553)
At March 31, 2008 and April 1, 2008	17,241	3,902	2,232	2,083	–	25,458
Exchange adjustments	(63)	(1)	(1)	–	–	(65)
Arising on acquisition of subsidiaries *(note 32)*	81,640	2,307	759	–	816	85,522
Additions	10,125	220	–	13	20,993	31,351
Disposals	(17,337)	(3,834)	(2,231)	–	–	(23,402)
Reclassification	20,075	–	–	–	(20,075)	–
At March 31, 2009	111,681	2,594	759	2,096	1,734	118,864
DEPRECIATION AND IMPAIRMENT						
At April 1, 2007	14,689	3,674	2,234	1,986	–	22,583
Provided for the year	993	192	60	23	–	1,268
Eliminated on disposals	(65)	(176)	–	(124)	–	(365)
Disposal of subsidiaries	–	(273)	(81)	(48)	–	(402)
At March 31, 2008 and April 1, 2008	15,617	3,417	2,213	1,837	–	23,084
Provided for the year	1,648	128	51	94	–	1,921
Eliminated on disposals	(16,037)	(3,496)	(2,231)	–	–	(21,764)
At March 31, 2009	1,228	49	33	1,931	–	3,241
CARRYING VALUES						
At March 31, 2009	110,453	2,545	726	165	1,734	115,623
At March 31, 2008	1,624	485	19	246	–	2,374

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

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

Machinery and equipment	5 – $33^1/_3$%
Furniture and office equipment	10 – $33^1/_3$%
Motor vehicles	10 – 20%
Leasehold improvements	Shorter of the lease periods or five years

16. INTANGIBLE ASSETS

	HK$'000
COST	
Arising on acquisition of subsidiaries *(note 32)* and balance at March 31, 2009	94,000
AMROTISATION	
Charge for the year and balance at March 31, 2009	2,506
CARRYING VALUES	
At March 31, 2009	91,494

The above intangible assets represent patents in relation to the design and production of direct drinking water purification machine which have finite useful lives. Such intangible assets are amortised on a straight line basis over the estimated useful life of approximately five years.

17. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries and balance at March 31, 2009 *(note 32)*	369,535

On February 12, 2009, the Group acquired 100% equity interest in Park Wealth Group from independent third parties resulting a goodwill amounted to approximately HK$369,535,000.

The Group uses business segment as its primary segment for reporting segment information. Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of goodwill at the balance sheet date is as follow:

	2009
	HK$'000
Direct drinking water segment	369,535

The recoverable amount of the one CGU of direct drinking water segment has been determined based on a value in use calculation. That calculation uses the estimation of the cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 22%. The cash flows beyond the 5-year-period are extrapolated using a steady growth rate of 13% per annum. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

18. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**4,879**	17,930
Work in progress	**409**	5,076
Finished goods	**177**	2,112
	5,465	25,118

19. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2009 HK$'000	2008 HK$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profit less recognised losses	**25,790**	–
Less: Progress billings	**(29,237)**	–
	(3,447)	–
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**4,520**	–
Amounts due to customers for contract work	**(7,967)**	–
	(3,447)	–

At March 31, 2009, there were no retention monies held by customers for contract work performed. At March 31, 2009, advances received from customers for contract work amounted to approximately HK$6,403,000 (2008: Nil) which were included in trade and other payables as the work has not been commenced as at March 31, 2009.

20. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	**16,098**	9,553
Other receivables	**875**	5,218
Prepayments and deposits	**7,676**	–
	24,649	14,771

The following is an aged analysis of trade receivables of the Group net of allowance for doubtful debts at the balance sheet date:

	2009 HK$'000	2008 HK$'000
0 to 30 days	**7,278**	9,553
31 to 90 days	**2,356**	–
91 to 180 days	**826**	–
181 to 365 days	**5,328**	–
Over 1 year	**310**	–
	16,098	9,553

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

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits of each customers. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

At March 31, 2009, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$6,405,000 (2008: Nil) which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past but not impaired

	2009	2008
	HK$'000	HK$'000
31 to 90 days	**692**	–
91 to 180 days	**75**	–
181 to 365 days	**5,328**	–
Over 1 year	**310**	–
	6,405	–

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

	2009	2008
	HK$'000	HK$'000
Balance at beginning of the year	**–**	–
Impairment losses recognised	**1,689**	–
Balance at end of the year	**1,689**	–

At March 31, 2009, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$1,689,000 (2008: Nil) where the debtors have been in severe financial difficulties.

21. BANK BALANCE AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits which carry prevailing market interest rate of 1.95% (2008: 2.3%) per annum with an original maturity of three months or less.

At the balance sheet date, included in the bank balances and cash are following amount denominated in currency other than the functional currency of the respective group entity:

	2009	2008
	HK$'000	HK$'000
USD	96,194	21,620
HKD	47,821	–
	144,015	21,620

22. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	HK$'000
Trade payables	19,594	15,135
Bills payable	1,705	–
Other payables	7,643	1,836
Other tax payables	8,675	–
Receipt in advance from customers	9,518	–
Accruals	1,966	2,013
	49,101	18,984

22. TRADE AND OTHER PAYABLES *(Continued)*

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

The following is an aged analysis of trade payables and bills payable:

	2009	2008
	HK$'000	HK$'000
0 – 30 days	**14,906**	13,415
31 – 90 days	**4,330**	1,667
91 – 180 days	**1,565**	53
181 – 365 days	**154**	–
Over 1 year	**344**	–
	21,299	15,135

23. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	2009	2008
	HK$'000	HK$'000
Xiao Shu (肖述)	**25,255**	–

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

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

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

24. BORROWINGS

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

As at March 31, 2008, the borrowing from an independent third party was secured by the shares of a subsidiary of the Group and carried interest at 1% per month with effective interest rate of 12% per annum. The balance was fully settled in March 2009.

25. WARRANTY PROVISION

	HK$'000
Arising on acquisition of subsidiaries *(note 32)*	823
Provided for the year	405
Amount utilised	(278)
At March 31, 2009	950

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

26. DEFERRED INCOME

	HK$'000
Arising on acquisition of subsidiaries *(note 32)*	27,502
Exchange adjustments	(18)
Additions	12,294
Realised to consolidated income statement	(6,739)
At March 31, 2009	33,039
Analysed for reporting purposes as:	
Current portion	28,135
Non-current portion	4,904
	33,039

Deferred income included in current liabilities of HK$28,135,000 (2008: nil) and non-current liabilities of HK$4,904,000 (2008: nil) represented fees received in advance for rental of water purification machine. The amount is released to income statement on a straight line basis over the relevant lease terms when lease term and rental are fixed or pre-determined or when water is purified by the water purification machine, as appropriate.

27. DEFERRED TAXATION

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

	Revaluation of patents arising from acquisition of business	Accelerated tax depreciation	Total
	HK$'000	HK$'000	HK$'000
At April 1, 2007	–	62	62
Credit to the consolidated income statement for the year	–	(43)	(43)
At March 31, 2008	–	19	19
Arising on acquisition of subsidiaries *(note 32)*	23,500	–	23,500
Credit to the consolidated income statement for the year	(627)	(19)	(646)
At March 31, 2009	22,873	–	22,873

27. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has the following unused tax losses that can be carried forward to future years. Their respective expiration years are as follows:

Expiry year	**2009**	2008
	HK$'000	HK$'000
2010	**394**	–
2011	**3,616**	–
2012	**11,331**	–
2013	**24,045**	–
2014	**8,672**	–
No expiry	**39,394**	16,446
	87,452	16,446

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

28. CONVERTIBLE BONDS

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

28. CONVERTIBLE BONDS *(Continued)*

Other principal terms of the Convertible Bonds:

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

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

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

(i) The fair value of the liability component for the Convertible Bonds represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the Convertible Bonds, but without the conversion option. The effective interest rate of the liability component is 7.95%.

28. CONVERTIBLE BONDS *(Continued)*

(ii) Embedded derivatives, comprising:

(a) The fair value of redemption discretionary option derivatives represents the Company's option to early redeem all or part of the Convertible Bonds; and

(b) The fair value of conversion option derivatives represent the option of the bondholders to convert the Convertible Bonds into equity of the Company at conversion price of HK$0.15 and the issuance of Warrants by way of bonus issue for every four Conversion shares with exercise price of HK$0.15.

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

	March 31, 2009	March 31, 2008	December 24, 2007
Risk Free Rate of interest	**0.31%**	1.20%	2.46%
Credit Spread	**11.40%**	2.33%	1.52%
Risk Premium	**3.88%**	3.88%	3.88%
Discount Rate	**15.05%**	7.41%	7.86%
Conversion Price	**HK$0.15**	HK$0.15	HK$0.15
Spot Price	**HK$1.80**	HK$2.80	HK$4.55
Volatility	**121.58%**	106.40%	105.76%

28. CONVERTIBLE BONDS *(Continued)*

(ii) Embedded derivatives, comprising: *(Continued)*

No conversion right have been exercised during the period from the date of issue to the balance sheet date.

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

	Liability	**Embedded derivatives**	**Total**
	HK$'000	HK$'000	HK$'000
At April 1, 2007	–	–	–
Issued during the year	158,578	25,922	184,500
Issue cost	(1,753)	(286)	(2,039)
Interest charged	3,384	–	3,384
Change in fair value	–	(3,405)	(3,405)
At March 31, 2008	160,209	22,231	182,440
Interest charged	12,593	–	12,593
Change in fair value	–	(2,566)	(2,566)
At March 31, 2009	172,802	19,665	192,467

29. NON-VOTING CONVERTIBLE PREFERENCE SHARES

The non-voting convertible preference shares ("Convertible Preference Shares") to be issued by the Company for the acquisition of the Park Wealth Group *(note 32)* with a par value of HK$0.01 each can be converted into ordinary shares without maturity date. The initial conversion price is at HK$4 per ordinary share (subject to adjustment). The Convertible Preference Shares shall at all times rank equally among themselves and pari passu with all other shares of the Company in issue with respect of the right to any dividends or distributions declared.

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

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

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

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

$$\text{Number of shares to be issued} = \frac{\text{Audited Profit}}{\text{Guaranteed Profit}} \times 200{,}000{,}000$$

29. NON-VOTING CONVERTIBLE PREFERENCE SHARES *(Continued)*

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

(i) Up to 40% of the Convertible Preference Shares at anytime during the period commencing from the first business day following the second anniversary of the date of completion of the Agreement until the third anniversary of the date of completion of the Agreement;

(ii) Up to 70% of the Convertible Preference Shares at anytime during the period commencing from the first business day following the third anniversary of the date of completion of the Agreement until the fourth anniversary of the completion of the Agreement;

(iii) All the remaining convertible shares at anytime after the first business day following the fourth anniversary of the date of completion of the Agreement.

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

30. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At April 1, 2007 and March 31, 2008	50,000,000,000	500,000
Designated as non-voting Convertible Preference Shares *(Note (i))*	(200,000,000)	(2,000)
At March 31, 2009	49,800,000,000	498,000
Non-voting Convertible Preference Shares of HK$0.01 each		
Designated from ordinary share during the year and balance at March 31, 2009	200,000,000	2,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At April 1, 2007	167,031,016	1,670
Issue of shares *(Note (ii))*	170,000,000	1,700
At March 31, 2008 and 2009	337,031,016	3,370

30. SHARE CAPITAL *(Continued)*

Notes:

(i) Pursuant to the Special General Meeting held on February 11, 2009, the Company creates and designates 200,000,000 shares of HK$0.01 each in the authorised share capital of the Company as non-voting Convertible Preference Shares.

(ii) During the year ended March 31, 2008, the Company allotted and issued 170,000,000 shares of HK$0.15 each (net of issuing cost of HK$115,000) as a result of a subscription of shares by Long Grand Limited.

31. CONTRIBUTED SURPLUS

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

32. ACQUISITION OF SUBSIDIARIES

On February 12, 2009, the Group acquired 100% equity interests in Park Wealth Group from independent third parties. Park Wealth Group is principally engaged in the business of leasing of direct drinking water purification machines, manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system. This acquisition has been accounted for using the purchase method. The goodwill on acquisition was approximately HK$369,535,000.

The assets and liabilities of the Park Wealth Group at the date of acquisition, determined on a provisional basis, are as follows:

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

	Carrying amount before combination HK$'000	Fair value adjustments HK$'000	Provisional fair value HK$'000
Net liabilities acquired			
Property, plant and equipment	85,522	–	85,522
Intangible assets	–	94,000	94,000
Inventories	5,170	–	5,170
Amounts due from customers for contract work	2,596	–	2,596
Trade and other receivables	29,331	–	29,331
Bank balances and cash	12,937	–	12,937
Amounts due to customers for contract work	(11,216)	–	(11,216)
Trade and other payables	(30,954)	–	(30,954)
Amount due to a related party	(25,281)	–	(25,281)
Borrowings	(89,075)	–	(89,075)
Taxation payable	(2,788)	–	(2,788)
Deferred tax liability	–	(23,500)	(23,500)
Warranty provision	(823)	–	(823)
Deferred income	(27,502)	–	(27,502)
	(52,083)	70,500	18,417
Goodwill			369,535
			387,952
Total consideration satisfied by:			
Transaction cost of acquisition			4,332
Convertible Preference Shares *(note 29)*			383,620
			387,952
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			12,937
Transaction cost of acquisition			(4,332)
			8,605

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

Note: The identification and fair value of the intangible assets and fair value of Convertible Preference Shares to be issued are determined on a provisional basis. Also, the number of Convertible Preference Shares to be issued is subject to the finalisation of the Audited Profit of the Park Wealth Group (see note 29 for details). As such, the goodwill arise on acquisition of subsidiaries may be adjusted accordingly as a result of the finalisation of the above.

The provisional fair value of the Convertible Preference Shares to be issued was determined based on the Binomial model and 200,000,000 Convertible Preference Shares expected to be issued.

The provisional fair value of intangible assets which represents by patent of the subsidiaries acquired is determined with reference to the discounted cash flow of the patent under the relief-from-royalty method.

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

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

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

33. DISPOSAL OF SUBSIDIARIES

On May 23, 2007, the Company disposed of its subsidiaries headed by Gentech (Asia) Limited ("Gentech"), to an independent third party. The net assets of Gentech at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	151
Other receivables	44
Bank balances and cash	8,759
Other payables	(35)
	8,919
Exchange gain realised	(795)
	8,124
Gain on disposal	755
Total consideration	8,879
Satisfied by:	
Cash	8,879
Net cash inflow arising on disposal:	
Cash consideration	8,879
Bank balances and cash disposed of	(8,759)
	120

There is insignificant impact by the disposal to the Group's results and cash flows to year ended March 31, 2008.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK$2,029,000 (2008: HK$1,260,000) under operating leases during the year in respect of rented premises and office equipments.

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

	2009		2008	
	Rented premises HK$'000	**Office equipment HK$'000**	Rented premises HK$'000	Office equipment HK$'000
Within one year	**6,478**	**16**	937	16
In the second to fifth years inclusive	**6,250**	**46**	1,743	62
	12,728	**62**	2,680	78

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

The Group as lessor

The Group received minimum lease payments of approximately HK$3,857,000 (2007: Nil) under operating leases during the year in respect of certain direct drinking water machines. In addition, the Group also has arrangement with the lessees of the direct drinking water machines whereby the rental is charged based on the volume of water purified. During the year ended March 31, 2009, the contingent rental income amounted to approximately HK$2,882,000 (2008: Nil).

34. OPERATING LEASE COMMITMENTS *(Continued)*

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments falls within one year of approximately HK$17,237,000 (2008: Nil).

Leases are negotiated for an average term of one year.

35. CAPITAL COMMITMENTS

	2009	2008
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**522**	–

36. SHARE OPTION SCHEME

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

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

36. SHARE OPTION SCHEME *(Continued)*

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

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

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

The total number of shares to be issued upon the exercise of all options granted under the Share Option Scheme is 8,400,000 as at March 31, 2009.

Details of the share options granted under the Scheme during the year ended March 31, 2009 are as follows:

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting period	Option granted during the year and at 3.31.2009
Directors	July 17, 2008	HK$5.32	7/17/2008 – 9/16/2014	N/A	1,200,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	1,200,000
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	1,200,000
					3,600,000
Employees	July 17, 2008	HK$5.32	7/17/2008 – 9/16/2014	N/A	1,600,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	1,600,000
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	1,600,000
					4,800,000

36. SHARE OPTION SCHEME *(Continued)*

The share price of the Company immediately before July 17, 2008, the date of grant of the options, was HK$5.2.

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

	July 17, 2008
Market price	HK$5.30
Exercise price	HK$5.32
Expected volatility	80.04% – 82.18%
Expected life	3.08 years – 4.08 years
Risk-free rate	2.66% – 2.98%
Expected dividend yield	4.48%

The estimated fair value of the options at the date of grant on July 17, 2008 is approximately HK$20,564,000. The Group recognised the total expense of approximately HK$13,900,000 for the year in relation to share options granted by the Company.

37. RETIREMENT BENEFIT SCHEMES

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

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

38. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	2009	2008
	HK$'000	HK$'000
Rental charges paid to a related company *(note a)*	**998**	974
Consultancy fees paid to related companies *(note b)*	**–**	110
Placing commission paid to a related Company *(note c)*	**–**	1,200

Notes:

(a) During the year ended March 31, 2009, a director of a subsidiary, Mr. Ling Tai Yuk, John, controls and has beneficial interests in the related company.

38. RELATED PARTY TRANSACTIONS *(Continued)*

(b) During the year ended March 31, 2008, the spouse of a former director of the Company controls and has beneficial interests in one of the two related companies. The former director of the Company controls and has beneficial interests in the other company.

(c) During the year ended March 31, 2008, a former substantial shareholder, Albert Yeung, has beneficial interest in the related company at the date placing agreement entered into.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities	Legal from
			2009	2008		
			%	%		
Directly held						
Surplus Rich Investments Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Management service to group companies	Private limited liability company
Successtime Limited	British Virgin Islands/ Hong Kong	US$1	**100**	N/A	Investment holding	Private limited liability company
Indirectly held						
Koniko Company Limited	Hong Kong/ Hong Kong and PRC	HK$20 Deferred* non-voting shares HK$22,143,000	**100**	100	Garment manufacture and trading	Private limited liability company

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities	Legal from
			2009 **%**	2008 %		
Park Wealth International Limited	British Virgin Islands/ Hong Kong	US$1	**100**	N/A	Investment holding	Private limited liability company
上海康福特環境科技有限公司 Shanghai Comfort Environment and Science Company Limited**	The PRC	RMB46,000,000	**100**	N/A	Manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system	Limited liability company
上海康福特水業發展有限公司 Shanghai Comfort Water Development Company Limited**	The PRC	RMB3,000,000	**100**	N/A	Leasing of direct drinking water machines and water purification service, sales of air purification and water purification equipments	Limited liability company
成都康福特水業有限責任公司 Chengdu Comfort Water Company Limited**	The PRC	RMB500,000	**100**	N/A	Leasing of direct drinking water machines and water purification service	Limited liability company
深圳康福特環保技術發展有限公司 Shenzhen Comfort Environment Protection Technology Development Company Limited**	The PRC	RMB1,000,000	**100**	N/A	Leasing of direct drinking water machines and water purification service	Limited liability company

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities	Legal from
			2009 %	2008 %		
上海康福特環保工程安裝有限公司 Shanghai Comfort Environment Engineering Company Limited**	The PRC	RMB5,100,000	100	N/A	Construction and installation of air purification and sewage treatment system	Limited liability company
上海康福特淨水有限公司 Shanghai Comfort Jing Shui Company Limited**	The PRC	RMB100,000	100	N/A	Leasing of direct water drinking machines and water purification service	Limited liability company
上海康誠和空氣淨化設備有限公司 Shanghai Kang Cheng He Air Purification Equipment Company Limited**	The PRC	RMB500,000	100	N/A	Construction installation of air purification and sewage treatment system	Limited liability company
北京康福特康潔水業有限公司 Beijing Comfort Kang Jie Water Company Limited**	The PRC	RMB500,000	100	N/A	Leasing of direct drinking water machines and water purification service	Limited liability company

* None of the deferred non-voting shares are held by the Group. The deferred non-voting shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution on winding up.

** The English name is for identification purpose only.

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

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

40. EVENTS AFTER THE BALANCE SHEET DATE

In May 2009, 400,000,000 shares and 100,000,000 warrants were issued to the holders of the Placing Bonds upon their conversion of the Placing Bonds in the aggregate principal amount of HK$60,000,000 at the conversion price of HK$0.15 per share. In addition, 400,000,000 shares and 100,000,000 warrants were issued to Long Grand upon its conversion of the Subscription Bonds in the principal amount of HK$60,000,000 in May 2009.

41. SUMMARISED BALANCE SHEET OF THE COMPANY

	2009	2008
	HK$'000	HK$'000
Total assets	**628,257**	244,320
Total liabilities	**193,746**	183,354
Net assets	**434,511**	60,966
Capital and reserves		
Share capital	**3,370**	3,370
Reserves	**431,141**	57,596
Total equity	**434,511**	60,966

Loss of the Company for the year ended March 31, 2009 amounted to approximately HK$23,975,000 (2008: Profit for the year amounted to approximately HK$27,861,000).

Five Years Financial Summary

RESULTS

	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**60,533**	178,096	161,850	152,761	176,258
(Loss) profit before taxation	**(53,164)**	13,669	15,897	12,277	11,701
Taxation	**627**	(1,426)	(1,341)	(1,225)	(1,165)
(Loss) profit for the year	**(52,537)**	12,243	14,556	11,052	10,536

ASSETS AND LIABILITIES

	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**758,428**	307,795	104,896	89,202	93,355
Total liabilities	**(343,510)**	(237,872)	(18,457)	(12,794)	(24,866)
Shareholders' funds	**414,918**	69,923	86,439	76,408	68,489