China Environmental Technology Holdings Limited
中國環保科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 646

Annual Report 2011

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Xu Zhong Ping *(Chairman)*
Mr. Zhang Fang Hong *(Chief Executive Officer)*
Ms. Song Xuan
Mr. Xu Xiao Yang

Non-executive Director:

Mr. Ge Ze Min
Mr. Fong Sai Mo
Mr. Xin Luo Lin

Independent Non-executive Directors:

Mr. Wong Kam Wah
Dr. Zhu Nan Wen
Prof. Zuo Jiane

AUDIT COMMITTEE

Mr. Wong Kam Wah *(Chairman)*
Dr. Zhu Nan Wen
Prof. Zuo Jiane

REMUNERATION COMMITTEE

Mr. Wong Kam Wah *(Chairman)*
Dr. Zhu Nan Wen
Prof. Zuo Jiane

NOMINATION COMMITTEE

Mr. Wong Kam Wah *(Chairman)*
Dr. Zhu Nan Wen
Prof. Zuo Jiane

COMPANY SECRETARY

Mr. Li Wang Hing, Nelson

AUDITOR

CCIF CPA Limited
34/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

LEGAL ADVISERS

Chiu & Partners
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1003–5
10th Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2511 1870
Fax: (852) 2511 1878

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 0646

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

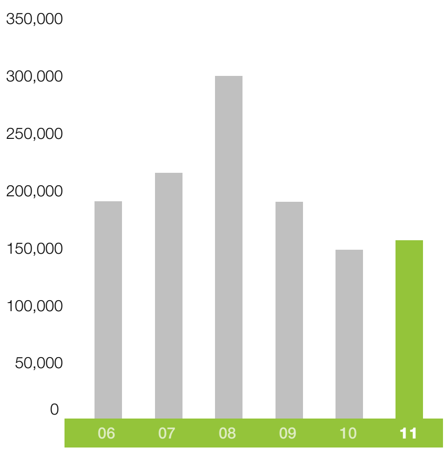
COMPANY WEBSITE

www.cethl.com

Financial Highlights

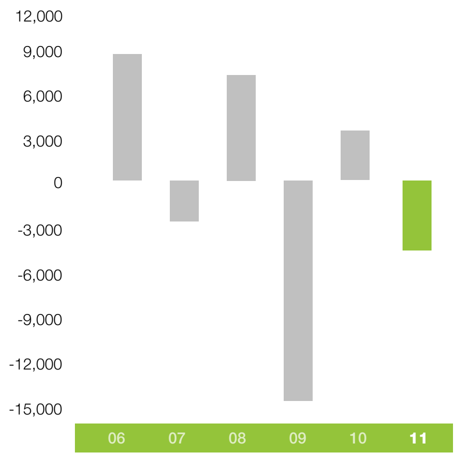
Turnover

HK$'000



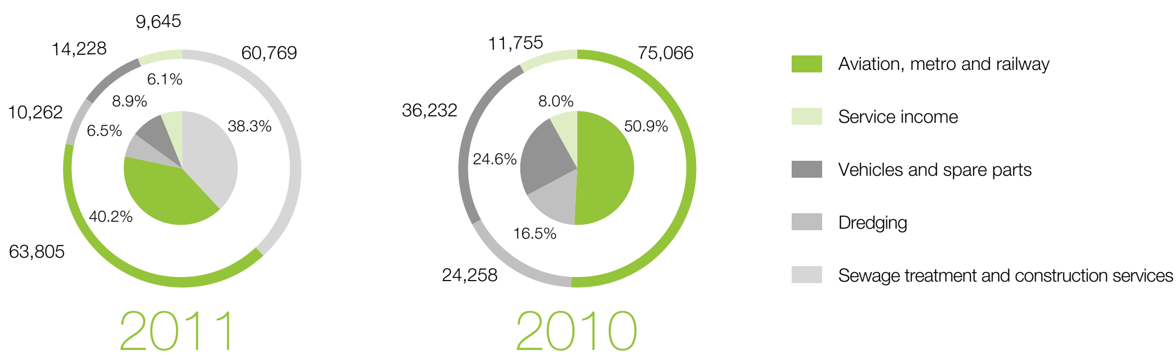
Net Profit/(Loss)

HK$'000



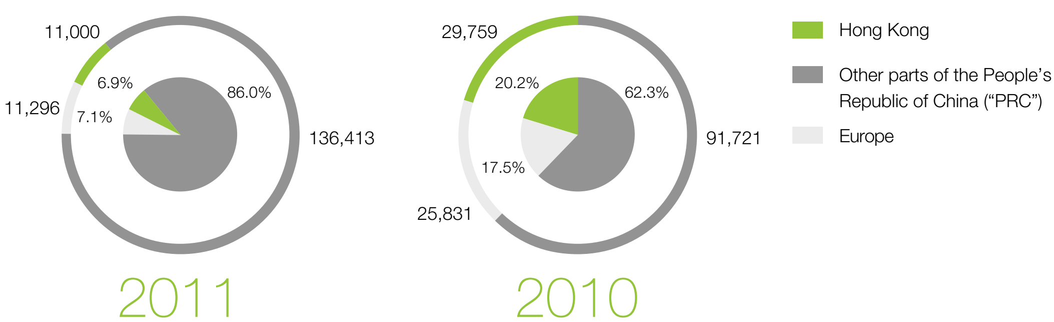
Turnover Analysis by Business Activities

HK$'000



Turnover Analysis by Geographical Area

HK$'000



Chairman's Statement

As public expectations for both the living and ecological environments are rising, the use of innovative technologies and state of the art equipment to satisfy environmental protection standards and requirements demanded by governments and enterprises has become not only a business opportunity, but also a social responsibility for every enterprise in the environmental protection industry that should be persistently taken on.

Being one of the world's leading experts of magnetic separation sewage treatment technology, China Environmental Technology Holdings Limited has been applying new technologies resulting from its relentless innovation in all markets across mainland China, and has been particularly efficient in constructing new environmental protection projects in the rural areas.

"Technology, greenness, harmony and happiness" have always been the core values and goals that we constantly pursue. We will adhere to our beliefs, concentrate on the environmental protection industry, and make every effort to let our customers, investors and employees benefit from our continuous progress.

I would like to take this opportunity to extend my heartfelt appreciation to the Group's management and employees, our valued business partners and associates, for their strong support and valuable contribution.

On behalf of the Board
Xu Zhong Ping
Chairman

Hong Kong, 28 June 2011

Management Discussion and Analysis

Results

For the year ended 31 March 2011, the Group recorded a turnover of approximately HK$158,709,000 (2010: HK$147,311,000), representing an increase of about 7.7% compared to that of 2010. The Group's loss attributable to owners of the Company of approximately HK$43,677,000 (2010: profit of HK$3,740,000). Gross profit margin was approximately 20.0% as compared to 26.2% in last year.

Business Review

During the year under review, the Group shifted its business strategy and began a new line of business of developing environmental technology in relation to waste water processing.


Hulu Island B0T project

In April 2010, the Group through business combination purchased 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd and its subsidiary ("Fanhe Water Group") and started engaging in sewage treatment business in Mainland China pursuant to a Build-Operate-Transfer contract ("BOT contract"). The Group has since the acquisition recorded HK$8,000,000 profit from sewage treatment operation for the year.


Vehicle-mounted System

In January 2011, the Group purchased patents through acquisition of 100% equity interest in Power Score Limited and its subsidiaries ("Power Score Group"). The relevant patents are technologies which are instrumental to the sewage treatment business the Group planned to carry on.

The increase in administrative expenses was mainly due to the increase of HK$22,000,000 from provision of bad and doubtful debts on trade receivables and the cost of share-based payment. The amortisation of intangible assets and operating concessions totalling HK$4,200,000 relating to the acquisitions during the year was included in the cost of sales. Included in the other net loss was an unrealised loss on trading securities of HK$11,000,000 (2010: gain of HK$6,000,000).

Prospects

At the beginning of the year, the No.1 Document of the CPC Central Committee introduced "The Implementation of the Most Stringent Water Resources Management System". The document, together with a series of documents relating to water resources management system (including "Implementing the most stringent water resources management system") prepared by the Ministry of Water Resources will constitute the system of most stringent water resources management in China.

The environmental protection industry is generally cross-industry, multi-disciplinary and cross-region, and is an integrated emerging industry that mutually interacts and penetrates with other economic sectors. In 2010, the State Council issued "The Decision on Speeding up the Cultivation and Development of Strategic Emerging Industries". Under such document, the environmental protection industry is ranked first among various strategic emerging

Management Discussion and Analysis

industries, which clearly indicates the main line of investment in the next five years. The establishment of national strategic emerging industries brings forward the development of the environmental services industry and fully reflects the government's policy concern for the environmental services industry.

In April, 2011, the Ministry of Environmental Protection issued "Guiding Opinions of the Environmental Protection System on Further Promoting the Development of Environmental Protection Industry in Environmental Protection System" Huan Fa [2011] No. 36 (hereinafter referred to as "Opinions"), The Opinions put emphasis on "enhancing development of 'total package' of environmental services, specialized operational services, consulting services and engineering services". Concurrently, the Ministry of Water Resources highly stressed that it will greatly promote the construction of environmental services system as well as the industrialization of environmental protection needs in future. Some experts believe that it is an important guidance of the development of environmental protection industry in next decade, and its market influence will be comparable to that of "Guiding Opinions of the Ministry of Construction on Liberalization of Public Utilities Sector" issued by the Ministry of Construction in 2002.

Drainage system and sewage treatment in medium and small towns have gradually been becoming the "shortcomings" of the urban sewage treatment sector. During the 12th five-year plan period, the country accords great importance to the drainage system and sewage treatment in medium and small towns. However, there still exist various sewage treatment problems in medium and small towns, such as absence of sewage treatment facilities, incomplete pipelines network and lack of economic foundation and industry input.

It is expected that, during the period from 2010 to 2015, the investment demand of the urban water supply sector and the sewage treatment sector will be RMB220 billion and RMB700 billion, respectively. In addition to "The 12th Five-Year Construction Plan of The National Urban Sewage Treatment and Recycling Facilities" and "The 12th Five-Year Water Pollution Prevention Plan", the water sector, as a sub-sector of the energy saving and environmental protection industry, is included in "Development Plan of Strategic Emerging Industries" and "The 12th Five-Year Environmental Protection Program" which are being developed by the relevant departments. This series of policies are expected to give long-term favorable influence to the water sector.

The Group was originally engaged in sales of vehicles, machinery, equipment, spare parts and providing engineering services. Through the acquisition of Hulu Island BOT sewage treatment project (葫蘆島BOT污水處理項目) and Beijing Jingrui Kemai Water Technology Co,. Ltd (北京精瑞科邁淨水技術有限公司), the Group successfully entered into the sector of environmental protection. Its principal business has also been expanded to the integration of environmental protection technology and equipment systems, provision of engineering services for urban sewage treatment and licensing of the use of relevant environmental protection technologies.

By using its own sewage treatment and related core technologies and targeting on urban sewage treatment industry chain, the Company is committed to becoming a leading integrator and operator in the world of magnetic separation sewage treatment technology research and development, equipment systems integration and engineering services, as well as the optimal provider of urban and rural environment comprehensive management services through continuous technological innovation.

Management Discussion and Analysis

Employees and Remuneration Policy

As at 31 March 2011, the Group had 182 employees (2010: 95 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

Liquidity and Financial Resources

Liquidity

The Group continued to maintain a stable financial position. As at 31 March 2011, cash and bank balances including pledged fixed deposits of the Group were HK$105,167,000 (2010: HK$102,460,000). The cash and bank balances consisted of about 9.6% in Hong Kong dollars, 15.9% in US dollars, 73.9% in Renminbi, 0.4% in Euro, and 0.2% in other currencies.

As at 31 March 2011, the Group had total assets of HK$457,992,000 (2010: HK$260,726,000) and total liabilities of HK$168,340,000 (2010: HK$65,622,000). As at 31 March 2011, the current ratio was 1.89 (2010: 3.23), calculated on the basis of current assets of HK$204,932,000 (2010: HK$199,483,000) over current liabilities of HK$108,248,000 (2010: HK$61,794,000).

The Group's bank borrowings amounted to HK$45,499,000 (2010: HK$3,883,000). The Group's borrowings, denominated in Hong Kong dollars and Renminbi, mainly comprise mortgage loans bearing floating interest rates and bank loan pledged on concession right bearing fixed interest rates. The Group's gearing ratio, being the ratio of the total borrowings to total assets, was 9.9% (2010: 1.5%).

Charge on assets

As at 31 March 2011, the Group's investment property with carrying value amounting to HK$25,800,000 (2010: HK$20,000,000), bank deposits of HK$202,000 (2010: HK$381,000) and the sewage treatment concession right of HK$117,759,000 (2010: HK$Nil) were pledged with banks to secure banking facilities granted to the Group.

Significant Acquisitions

Business Combination

On 9 April 2010, the Company entered into an agreement for purchase of 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd ("Fanhe Water") and its subsidiary ("Fanhe Water Group") at a total consideration of HK$55,000,000. Fanhe Water is an investment holding company and its subsidiary, Fanhe (Hulu Island) Water Investment Co., Ltd. ("Fanhe Hulu"), is engaged in sewage treatment business in mainland China pursuant to a formal Build-Operate-Transfer contract ("BOT contract") dated 23 April 2010. Under the BOT contract, Fanhe Hulu was granted the concessionary operating rights for a period of 30 years from April 2010 to March 2040 in respect of a waste water processing project ("BOT Project") in Hulu Island City.

Current operation

Management Discussion and Analysis


Expansion Phase

Under the BOT Contract, Fanhe Hulu is also required to make commitment in the BOT Project which involves in expansion and upgrading of the effluent standard of the Waste Water Processing Project. The Group has committed to increase its daily sewage processing capacity from the current 70,000 tonnes to 120,000 tonnes next year. In the meantime, the upgraded effluent standard will reach Grade 1A, being the highest national effluent standard, from Grade 2. The sewage treatment fee shall increase from current RMB0.70/tonne to RMB0.97/tonne. In consideration for constructing, operating and maintaining the BOT Project and providing sewage treatment services, Fanhe Hulu is entitled to receive sewage treatment fees from the Finance Bureau of Hulu Island City. The acquisition was completed on 27 April 2010.

At the expiration of the concession period, Fanhe Hulu is required to hand over all the assets belonging to the Waste Water Processing Project to Hulu Island City Sewage Processing Co., Ltd., the grantor of the BOT Project.

The Group is of the view that the population in Mainland China is expected to grow, current water shortages may be exacerbated. To address water shortages and natural water resource pollution attributable to rapid growth in population, urbanization and industrialization in mainland China, the PRC government has been promulgating stricter environmental standards and invested significantly in water treatment projects to promote sustainable economic growth. The Group believes that the demand for water treatment infrastructure is expected to experience rapid growth.

The details are set out in note 17 and 35 to the financial statements.

Purchase of Certain Patent and Patent Applications through Acquisition of Subsidiaries

On 9 November 2010, the Company entered into a sale and purchase agreement with 2 vendors to purchase 100% equity interest in Power Score Limited and its subsidiaries ("Power Score Group"). Power Score Group holds a registered patent and patent application in respect of water purification technology.

The Group takes the view that the acquisition of Power Score Group will allow the Group to use the patents, which will enable the Group to have a solid technology foundation to capture the rapid growth of water purification business in the PRC.

The details are set out in note 18 and 36 to the financial statements.


Fixed System

Management Discussion and Analysis

Letter of Intent

On 22 November 2010, the Company entered into a non-legally binding letter of intent ("Letter of Intent") with Beijing Capital (Hong Kong) Limited ("Beijing Capital (Hong Kong)"), containing, inter alia, the parties' intention to discuss on the proposed establishment of a joint-venture company ("JV Company") in the People's Republic of China ("PRC").

Established in 2004, Beijing Capital (Hong Kong) is a company incorporated in Hong Kong with limited liabilities and is a wholly-owned subsidiary of Beijing Capital Co., Ltd. (首創股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600008). Beijing Capital (Hong Kong) is principally engaged in the investment and financing businesses related to water treatment and environmental protection, value-added chain business and international cooperation business.

With the combined resources advantages of Beijing Capital (Hong Kong) and its parent company and the characteristics of technologies level of the Company and its subsidiaries, and under the market demand for and development trend of water treatment industry in the PRC, it is expected that the JV Company is capable of integrating the resources and technologies of both parties and maximizing their abilities and advantages, so as to establish the JV Company whose principal business activities shall include sales and provision of technology promotion and consultation services relating to magnetic isolation water treatment equipment (磁分離移動水處理設備) and highly-magnetic soil water treatment equipment (磁高泥水處理設備). It is expected that the JV Company can meet the market demand for urban and rural sewage treatment, water treatment for natural water such as lakes and rivers, urban landscape water treatment, upgrading and reconstruction of urban sewage treatment into emergency water and high-phosphates industrial wastewater treatment in a number of provinces/regions in the PRC.

Framework Agreement

On 18 April 2011, the Company entered into a non-legally binding framework agreement (the "Framework Agreement") with an independent third party, the management committee (the "Management Committee") of Chanba ecological zone (滻灞生態區) in Xi'an, in relation to the possible investment in the construction of intensive-model high-tech environmental ecological system project in the north-wing of Chanba ecological zone in Xi'an.

1,000 tons Vehicle-mounted System

The Company intended to build a high-tech and low-emission environmental protection system project in the north-wing of Chanba ecological zone in Xi'an. The Company plans to introduce Beijing Capital Group and several large-scale enterprises and listing companies to jointly develop the construction of the environmental protection ecological system in the form of joint-venture or cooperation. Covering an area of about 30 square kilometers, the project will span a total construction cycle from 8 to 12 years.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Xu Zhong Ping, aged 48, is the Chairman and an executive Director of the Company. Mr. Xu has over 20 years' experience in enterprise management, business investment and international economic strategic cooperation. He has been a standing director of the China Council for the Promotion of International Economy and Culture* (中國國際經濟文化促進會) since 1996. Mr. Xu studied statistics and graduated from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC in 1986.

Mr. Xu was a director of each of the following private companies registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance (Chapter 32, Laws of Hong Kong): CVIC Commercial Development Co., Limited (中創商業發展有限公司), Gorden Hong Kong Limited (高登香港有限公司), Jumbo Star Development Limited (百利星發展有限公司) and Rich Harbour Holdings Limited (譽港集團有限公司). According to Mr. Xu, each of the said companies was solvent at the time of it being struck off.

Mr. Zhang Fang Hong, aged 46, is the chief executive officer and an executive Director of the Company. Mr. Zhang holds a bachelor's degree in Economics from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC, a master's degree in Economics from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance and Economics*), the PRC and an executive master's degree in business administration from China Europe International Business School, the PRC. He has served various executive roles in several companies in the PRC and Hong Kong. During the period from 2 October 2007 to 28 December 2007, Mr. Zhang served as an executive director of Great World Company Holdings Limited (formerly known as T S Telecom Technologies Limited), the shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") (stock code: 8003). He is currently a director of Best Wish Technology Limited (展望科技有限公司), which is a private company incorporated in Hong Kong.

Ms. Song Xuan, aged 47, is an executive Director of the Company. She has extensive experience in accounting and finance. She holds a bachelor degree in economics from Beijing Union University. She was an executive director of Shanghai Industrial Urban Development Group Limited (formerly known as Neo-China Land Group (Holdings) Limited), the shares of which are listed on the Stock Exchange (stock code: 563), from 31 March 2005 to 15 June 2006.

Mr. Xu Xiao Yang, aged 44, is an executive Director of the Company. He has over 10 years of experience in foreign trading, logistics, energy, education and real property businesses. Before joining the Company, he has worked as an executive director of Australian International Investment Group and Australia Queensland Education Investment Group. Mr. Xu graduated from Beijing Foreign Language Institute and was major in English.

Biographical Details of Directors and Senior Management

Non-executive Director

Mr. Ge Ze Min, aged 58, is a non-executive Director of the Company. Mr. Ge is a senior economist and holds a bachelor's degree in Finance from the Central University of Finance and Economics (formerly known as Central College of Finance and Economics*), the PRC. Since 2003, Mr. Ge has been the assistant to the general manager and the head of international operations of Beijing Capital Co., Limited and is in charge of exploring overseas business opportunities and overseeing the company's overseas operations. Mr. Ge also held various management positions in several companies both in the PRC and Hong Kong. He has extensive experience and business development capabilities in international finance, domestic and international investments, and international trade. He is also a general manager and a director of Beijing Capital (Hong Kong) Limited. Mr. Ge served as a non-executive director of Richly Field China Development Limited (formerly known as Dickson Group Holdings Limited) from 23 July 2008 to 20 February 2009, the shares of which are listed on the Stock Exchange (stock code: 313) and he is currently an executive director of New Capital International Investment Limited, the shares of which are listed on the Stock Exchange (stock code: 1062). Mr. Ge was a director of Superford Industries Limited (盛裕實業有限公司), a private company registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance. According to Mr. Ge, the said company was solvent at the time of it being struck off.

Mr. Fong Sai Mo, aged 48, is a non-executive Director of the Company. He has over 25 years' experience in international business and investment management. He was formerly the Greater China General Manager of a European conglomerate and a director of a China jewelry chain; during his tenure he was responsible for the establishment of two large distribution networks in China and the investments into several highly successful joint-ventures in China. Mr. Fong is currently a managing director of a well-known China-based luxury goods manufacturing group.

Mr. Xin Luo Lin, aged 61, is a non-executive Director of the Company. Mr. Xin was a postgraduate from the Peking University in the People's Republic of China in 1980. He was a visiting scholar at the Waseda University, Japan between 1980 and 1983, an honorary research associate at the University of British Columbia, Canada during 1983 and 1984, and a visiting fellow at the Australia National University, Australia from 1984 to 1985. He was appointed as an adviser to the chairman of Guangdong Capital Holdings Limited from 1998 to 2000. He was appointed as a Justice of the Peace in New South Wales of Australia in 1991. Mr. Xin is a co-author of a book titled "China's iron and steel industry policy: implications for Australia". He is an independent investor with over 20 years of experience in investment banking in the PRC, Hong Kong and Australia. Mr. Xin is currently:

(i) an independent non-executive director of Enerchina Holdings Limited (stock code: 622) listed on the Hong Kong Stock Exchange;

(ii) an independent non-executive director of Sinolink Worldwide Holdings Limited (stock code: 1168) listed on the Hong Kong Stock Exchange;

(iii) an independent non-executive director of Central China Real Estate Limited (stock code: 832) listed on the Hong Kong Stock Exchange;

(iv) a non-executive director and honorary chairman of Asian Capital Holdings Limited (stock code: 8295) listed on the Hong Kong Stock Exchange;

(v) a non-executive director of Sino-Tech International Holdings Limited (stock code: 724) listed on the Hong Kong Stock Exchange;

(vi) a director of Mori Denki Mfg. Co., Ltd., a public company listed on the Tokyo Stock Exchange; and

(vii) a director and vice chairman of Oriental Technologies Investment Limited, a public company listed on the Australian Stock Exchange.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Wong Kam Wah, aged 52, is an independent non-executive Director of the Company. He is the chairman of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Mr. Wong is currently an independent non-executive director of South East Group Limited, the shares of which are listed on the Stock Exchange (stock code: 726). He is a fellow member of the Association of Chartered Certified Accountants and an associate member of each of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Wong is currently the principal of a certified public accountants firm. He has extensive experience in accounting and auditing work.

Dr. Zhu Nan Wen, aged 42, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Dr. Zhu obtained his doctoral degree in Environmental Engineering, Tongji University, the PRC in 2000, a master degree in microbiology, Zhe Jiang University (formerly known as Zhejiang Agriculture University* (浙江農業大學)), the PRC in 1996, and a bachelor degree in crop, Faculty of Agronomy*, Zhe Jiang University, the PRC in 1991. Dr. Zhu has been working at Shanghai Jiao Tong University, the PRC since 2000. He has been a professor of School of Environmental Science and Engineering, Shanghai Jiao Tong University, the PRC since August 2005. He was an associate professor and a lecturer in the same school during the period from August 2001 to August 2005 and from March 2000 to July 2001 respectively. Dr. Zhu is also the head of the Institute of Solid Waste Treatment and Disposal* (固體廢棄物處理處置技術研究所) at Shanghai Jiao Tong University, the PRC and is appointed as an expert in assessment and planning in selected projects of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), the PRC and Shanghai Chengtou Corporation (上海市城市建設投資開發總公司), the PRC. Dr. Zhu has participated in various investment projects in wastewater treatment, environmental microbiology and waste treatment related fields which were registered as invention patents in the PRC.

Professor Zuo Jiane, aged 43, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee respectively. Professor Zuo graduated from Tsinghua University with a bachelor degree in Environment Science and Engineering in 1991. In 1995, he obtained a doctorate degree from the Department of Environmental Science and Engineering of Tsinghua University. During 1998 to 1999, he acted as a visiting scholar in the University of Newcastle.

Working experiences of Professor Zuo are as follows:

(i) Lecturer and associate professor of the Department of Environment Science and Engineering of Tsinghua University from 1995 to 2004;

(ii) Professor of the Department of Environment Science and Engineering of Tsinghua University from 2004 to 2010;

(iii) The Deputy Head of the Department of Environment Science and Engineering of Tsinghua University in 2010; and

(iv) The Associate Dean of the Department of Environment Science and Engineering of Tsinghua University since 2011.

Biographical Details of Directors and Senior Management

Research directions of Professor Zuo are:

(i) The mechanism and engineering applied research of highly-concentrated organic sewage, sludge and bio effective anaerobic digestion;

(ii) Principle and applied research of new sewage treatment process;

(iii) Research of urban sewage advanced treatment technology;

(iv) Research of sewage networks operation management and maintenance;

(v) Research urban and rural diffused pollution control and management; and

(vi) Research of assessment on sewage pollution prevention technology and research of management mechanism on pollution prevention technology, and etc.

Major ongoing research projects of Professor Zuo are as follows:

(i) State 863 Plan of "Research of highly-utilized technology and equipment of biowaste anaerobic digestion outcome (生物質垃圾厭氧消化產物高值利用技術、裝備研發)", 2008–2010

(ii) State 863 Plan of "Key treatments, equipment research and demonstration of highsolids anaerobic digestion (高固體厭氧消化關鍵工藝、裝備研發與工程示範)", 2008–2010

(iii) State 863 Plan of "New filtering equipments for sewage advanced treatment research and application (污水深度處理新型過濾設備的研製與應用)", 2009–2012

(iv) State 863 Plan of "High-rate anaerobic digestion technology study and demonstration for sewage sludge (城市污泥分級分相厭氧消化組合技術研發及工程示範)", 2009–2012

(v) National Technology Support Project, "Research and demonstration of scaled biogas engineering mechatronics equipment and control technology (規模化沼氣工程機電一體化裝備及控制技術研究與工程示範)", 2008–2010

(vi) National Technology Support Project, "Research and demonstration of new treatment technology of solid biogas fermentation (固體物料兩相沼氣發酵新工藝技術研究與工程示範)", 2008–2010

(vii) National Science and Technology Major Project, "Technology and demonstration of rapid urbanization new-zone water environment comprehensive protection (快速城市化新區水環境綜合保護技術與示範)", 2008–2010

(viii) National Science and Technology Major Project, "Research and technology city cluster in the area around the Taihu Luke environment comprehensive management technology (環太湖城市群水環境綜合管理技術集成研究與綜合示範)", 2008–2010

(ix) National Science and Technology Major Project, "Pharmaceutical industry water pollution protection technology assessment and selection (製藥行業水污染防治技術評估與篩選)", 2009–2011

(x) National Science and Technology Major Project, "Indicative mechanism study of pharmaceutical industry water pollution protection technology assessment (製藥行業水污染防治技術評估指標體系研究)", 2009–2011

Biographical Details of Directors and Senior Management

Technology awards of Professor Zuo include:

(i) Second Class Prize for Beijing Science and Technology Progress, Development of UASB reaction equipment and its auxiliary products (反應器設備化及其配套產品開發), 2001

(ii) Second Class Prize of Environmental Protection Science Technology of State Environmental Protection Administration (國家環境保護總局環境保護科學技術獎二等獎), Research and application of effective anaerobic reactor, 2006

(iii) Third Class Prize of Environmental Protection Science Technology of State Environmental Protection Administration (國家環境保護總局環境保護科學技術獎三等獎), Research & development of effective unit treatment equipment (高效單元處理設備的研製和開發), 2003

(iv) Teaching Achievement Special Prize of Tsinghua University (清華大學教學成果獎特等獎), Theory and practice of organic combination of water treatment engineering establishment (理論與實踐有機融合的水處理工程課程建設), 2010

(v) Second Class Prize of Science Research Outstanding Results Award (Science and Technology Advancement Award) of higher education of Ministry of Education (教育部高等學校科學研究優秀成果 (獎科技進步獎) 二等獎), research & application of sustainable wastewater treatment mainly by anaerobic technology (以厭氧技術為核心的可持續廢水處理系統研究與應用), 2010

Publications of Professor Zuo include:

(i) Theory and Practice of UASB Treatment (UASB 工藝的理論與工程實踐) by Wang Kaijun and Zuo Jiane, etc., China Environmental Science Press, Beijing, 2000

(ii) Theory and Practice of Wastewater Anaerobic Bio-treatment (廢水厭氧生物處理理論與技術) by Hu Jicui, Zhou Mengjin, Zui Jiane, etc., China Architecture & Building Press, Beijing, 2003

(iii) Jiane Zuo, Lili Gan, Water and Sanitation Services (Chapter 19), Earthscan, London, 2009

Other academic positions held by Professor Zuo include:

(i) Standing Member of The seventh Committee of China Biogas Society

(ii) Member of the International Water Association (IWA)

Save as disclosed above, each of the above Directors did not hold any other positions with the Company and/or any of its subsidiaries and did not hold any other directorships in any listed public companies in the last three years.

Save as disclosed above, none of the above Directors have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange) or controlling shareholder (as defined in the Listing Rules) of the Company.

Biographical Details of Directors and Senior Management

Company Secretary

Li Wang Hing, Nelson, is the Company Secretary of the Company. He is also the finance manager and human resources manager of the Company. Mr. Li holds a master degree of business administration from the University of Leicester in U.K. and a master degree of professional accounting from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and is also a qualified Chartered Secretary designated as FCIS and FCS. In 1999–2000, he was the President of the Hong Kong Polytechnic University Postgraduate Association. At present, he is the Honorary Auditor of Hong Kong Seamen's Union and the Council Member of Shipping Employees Union.

* *the unofficial English translation or translation for identification purpose only*

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2011.

Principal Place of Business

The Company is a company incorporated in the Cayman Islands and has its principal place of business at Unit 1003–5, 10th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

Principal Activities

The principal activity of the Company is investment holding. The Group's principal business are trading of vehicles, machinery, equipment; environmental protection technology, equipment system integration, cities and towns sewage treatment, project technical service and licensing of related environmental protection technical know-how. The details activities and other particulars of the subsidiaries are set out in note 20 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	38.3%	
Five largest customers in aggregate	92.2%	
The largest supplier		40.9%
Five largest suppliers in aggregate		78.0%

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

Financial Statements

The profit of the Group for the year ended 31 March 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 37 to 137.

Transfer to Reserves

Loss attributable to owners, before dividends, of HK$43,677,000 (2010: profit of HK$3,740,000) have been transferred to reserves. Other movements in reserves are set out in note 33(a) to the financial statements.

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

Report of the Directors

Property, Plant and Equipment

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

Directors

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

Executive Directors

Xu Zhong Ping *(Chairman)*
Zhang Fang Hong *(Chief Executive Officer)*
Song Xuan
Xu Xiao Yang

Non-Executive Director

Ge Ze Min	
Fong Sai Mo	(appointed on 31 July 2010)
Xin Luo Lin	(appointed on 17 March 2011)

Independent Non-Executive Directors

Wong Kam Wah	
Zhu Nan Wen	
Zuo Jiane	(appointed on 23 March 2011)
Gao Ling	(resigned on 23 March 2011)

Mr. Fong Sai Mo and Mr. Xin Luo Lin will retire from the office as non-executive Directors and Prof. Zuo Jiane will retire from the offices as independent non-executive Director at the forthcoming annual general meeting in accordance with article 111 of the Articles of Association of the Company. Ms. Song Xuan and Mr. Xu Xiao Yang will retire from the office as executive Directors at the forthcoming annual general meeting in accordance with article 108(A) of the Articles of Association of the Company. All retiring Directors, being eligible, will offer themselves for re-election.

All Directors (including non-executive and independent non-executive Directors) of the Company are subject to the general provisions in respect of the retirement and rotation of Directors at the annual general meeting pursuant to the Company's Articles of Association.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Directors' and Chief Executive's Interests in Shares and Underlying Shares

The Directors and chief executive who held office at 31 March 2011 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Long position

(i) Interests in issued shares of the Company

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Xu Zhong Ping *(note)*	Interest held by a controlled corporation	1,200,000,000	49.36%
	Beneficial owner	9,606,886	0.40%
		1,209,606,886	49.76%
Xu Xiao Yang	Beneficial owner	20,000,000	0.82%

Note:

These 1,200,000,000 shares were held under the name of Gentle International Holdings Limited ("Gentle"). Mr. Xu Zhong Ping owns 60% of the issued share capital of Gentle. Mr. Xu was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

(i) Interests in underlying shares of the Company

Name of Director	Capacity	No. of share option held	% of the Company's issued share capital
Xu Zhong Ping	Beneficial owner	2,200,000	0.09%
Zhang Fang Hong	Beneficial owner	22,000,000	0.90%
Xu Xiao Yang	Beneficial owner	3,000,000	0.12%

Apart from the foregoing, as at 31 March 2011, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

Share Options

2002 Share Option Scheme

The Company's 2002 Share Option Scheme was adopted on 28 March 2002 and was terminated by a resolution passed by shareholders on 10 September 2010.

2010 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2010 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 10 September 2010. The Directors are given a general mandate to invite eligible participants to take up options at the subscription price as prescribed under the 2010 Share Option Scheme to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive Directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the Directors as incentive or rewards for their contribution to the Group. The share option scheme has become valid and effective for a period of ten years ending on 9 September 2020.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first installment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the company.

The total number of securities available for issue under the share option scheme as at 31 March 2011 was 64,500,000 shares which represents 2.65% of the issued share capital of the Company as at 31 March 2011. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12–month period is limited to 1% of the Company's ordinary shares in issue.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. The share option scheme will expire on 9 September 2020.

Report of the Directors

Details of the share options granted under the 2010 Share Option Scheme and a summary of the movements during the year are as follows:

				Number of share options				
Name	Date of grant	Exercisable period	Exercise price HK$	Balance at 1.4.2010	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31.3.2011
Directors								
Xu Zhong Ping	17 September 2010	17 September 2010 to 16 September 2020	0.46	–	2,200,000	–	–	2,200,000
Zhang Fang Hong	17 September 2010	17 September 2010 to 16 September 2020	0.46	–	22,000,000	–	–	22,000,000
Xu Xiao Yang	17 September 2010	17 September 2010 to 16 September 2020	0.46	–	3,000,000	–	–	3,000,000
Sub-total				–	27,200,000	–	–	27,200,000
Others								
Employees and other qualified participants	17 September 2010	17 September 2010 to 16 September 2020	0.46	–	37,300,000	–	–	37,300,000
Sub-total				–	–	–	–	–
Total				–	64,500,000	–	–	64,500,000

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 2u(ii) and note 31 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors

Substantial Shareholders' Interests in Shares

As at 31 March 2011, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	No. of ordinary shares of the Company interested	% of the Company's issued share capital
Gentle International Holdings Limited	Beneficial owner	1,200,000,000	49.36%
Li Song Xiao	Beneficial owner	336,624,000	13.85%
Chung Cheong Group Limited	Beneficial owner	172,304,000	7.09%
Mo Huiqin *(note)*	Interest held by a controlled corporation	172,304,000	7.09%

Note:

Mo Huiqin is the sole shareholder of Chung Cheong Group Limited and was therefore deemed to be interested in the said 172,304,000 shares held by Chung Cheong Group Limited under Part XV of the SFO.

Save as disclosed above, as at 31 March 2011, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Interests in Contracts

Save as disclosed in note 38 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

Directors Interests in Competing Business

None of the Directors or their respective associates has any interests in a business which competes or may compete with the business of the Group.

Report of the Directors

Share Capital

Pursuant to the approval in the extraordinary general meeting held on 1 March 2010, each issued and unissued shares having a par value of HK$0.05 be subdivided into two subdivided shares of HK$0.025 each. Upon the subdivision becoming effective on 2 March 2010, the authorised share capital of the Company of HK$200,000,000 was divided into 8,000,000,000 subdivided shares of HK$0.025 each, of which, 2,232,992,000 subdivided shares were issued and fully paid.

On 29 September 2010, the Company allotted and issued 37,500,000 ordinary shares of a par value of HK$0.025 each at HK$0.415 per share as at 27 April 2010 as part of the consideration for the acquisition of Fanhe Water Group.

A placing exercise was conducted in December 2010. By resolutions passed by the Board at its meeting held on 10 December 2010, an aggregate 143,021,914 new shares having a par value of HK$0.025 in the share capital of the Company were issued at a subscription price of HK$0.4335.

On 5 January 2011, the Company allotted and issued 17,467,066 ordinary consideration shares with par value of HK$0.025 each at HK$0.44 per share as part of the consideration for the acquisition of Power Score Group.

Since 5 January 2011 and up to the date of this announcement, the total number of issued shares of the Company was 2,430,980,980.

Details of the movements in share capital of the Company during the year are set out in note 32 to the financial statements.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2011 (2010: Nil).

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Bank Loans and Overdrafts

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2011 are set out in note 27 to the financial statements.

Contingent Liabilities

At 31 March 2011, the Company gave corporate guarantees for banking facilities of HK$28,075,000 (2010: HK$21,958,000) granted to certain of its subsidiaries. The maximum liability of the Company at 31 March 2011 under the guarantees issued was the facilities utilized by the subsidiaries totalling HK$14,206,000 (2010: HK$10,493,000). The Directors do not consider it probable that a claim will be made against the Company.

Report of the Directors

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 140 of the annual report.

Properties

Particulars of the major properties and property interest of the Group are shown on pages 138 and 139 of the annual report.

Retirement Schemes

As from 1 December 2000, the Group operates a mandatory provident fund scheme (the "MPF Scheme"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance (Cap. 485, Laws of Hong Kong) for employees employed under the jurisdiction of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000.

The employees in the Group's PRC subsidiaries are members of the state-managed retirement schemes. The PRC subsidiaries are required to contribute a specified percentage of their payroll to these schemes. The only obligation of the Group with respect to these retirement schemes is to make the specified contributions.

Confirmation of Independence

The company received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

Report of the Directors

Sufficiency of Public Float

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

Auditor

CCIF CPA Limited retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
Xu Zhong Ping
Chairman

Hong Kong, 28 June 2011

Corporate Governance Report

The Board of the Company is pleased to present this corporate governance report in the Group's annual report for the year ended 31 March 2011.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules are applied and implemented is explained as follows:

Corporate Governance Practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Throughout the year ended 31 March 2011, the Company has applied the principles and complied with the code provisions set out in the CG Code, save for certain deviations from the code provisions, details of which are explained in the relevant paragraphs below.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices periodically to ensure these continue to meet the requirements of the CG Code and align with the latest developments.

The Board

Responsibilities

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Board Composition

The Company has adopted the recommended best practice under the CG Code. The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board currently comprises ten Directors, including four executive Directors, three non-executive Directors and three independent non-executive Directors.

Corporate Governance Report

The Board currently comprises eight members, consisting of four executive Directors, one non-executive Director and three independent non-executive Directors.

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

Executive Directors:

Xu Zhong Ping *(Chairman)*
Zhang Fang Hong *(Chief Executive Officer)*
Song Xuan
Xu Xiao Yang

Non-Executive Director:

Ge Ze Min	
Fong Sai Mo	(appointed on 31 July 2010)
Xin Luo Lin	(appointed on 17 March 2011)

Independent Non-Executive Directors:

Wong Kam Wah	(Chairman of Audit Committee, Remuneration Committee and Nomination Committee)
Zhu Nan Wen	(Member of Audit Committee, Remuneration Committee and Nomination Committee)
Zuo Jiane	(appointed on 23 March 2011, member of Audit Committee, Remuneration Committee and Nomination Committee)
Gao Ling	(resigned on 23 March 2011, Chairman of Remuneration Committee and Nomination Committee, Member of Audit Committee)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the CG Code.

Members of the Board are unrelated to one another.

During the year ended 31 March 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The executive Directors, with their intimate knowledge of the business, take on the primary responsibility for the leadership for the Company while the non-executive Director and independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Corporate Governance Report

Appointment, Re-election and Removal of Directors

In accordance with article 108(A) of the Articles of Association of the Company, all Directors are subject to retirement by rotation at least once every three years. In accordance with article 111 of the Articles of Association of the Company, any new Director appointed to fill a causal vacancy shall submit himself for re-election by shareholders at the next following general meeting after appointment and any new Director appointed as an addition to the Board shall submit himself for re-election by shareholders at the next following annual general meeting after appointment.

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

There is no service contract between the Company and Mr. Ge Ze Min, Mr. Fong Sai Mo and Mr. Xin Luo Lin, the non-executive Directors, and Mr. Wong Kam Wah, Dr. Zhu Nan Wen and Prof. Zuo Jiane, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Although the non-executive Director and independent non-executive Directors do not have a specific term of appointment, all Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Nomination Committee

As at 31 March 2011, the Nomination Committee comprised three members, namely Mr. Wong Kam Wah (Chairman), Dr. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors.

Corporate Governance Report

The principal duties of the Nomination Committee include:

(a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to develop and formulate relevant procedures for nomination and appointment of Directors;

(c) to identify individuals suitably qualified to become a Board member;

(d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and

(e) to assess the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee met once during the year ended 31 March 2011 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company and the attendance records are set out under "Directors' Attendance Records" on page 30.

In accordance with the Company's Articles of Association, Ms. Song Xuan, Mr. Xu Xiao Yang, Mr. Fong Sai Mo, Mr. Xin Luo Lin and Prof. Zuo Jiane shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

A circular containing detailed information of the Directors standing for re-election at the forthcoming annual general meeting would be sent to the shareholders.

Induction and Continuing Development for Directors

Each newly appointed Director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company shall consider to engage external legal and other professional advisers for providing professional briefing and training programmes to the Directors where circumstances arise. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Corporate Governance Report

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least fourteen days before the meetings and reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Board papers together with all appropriate, complete and reliable information are sent to all Directors/committee members at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, Financial Controller or Company Secretary attended some regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

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

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

Directors' Attendance Records

During the year ended 31 March 2011, two regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals. There were twenty-one Board meetings held during the year under review, two of which were regular meetings held for approving the final results for the year ended 31 March 2010 and interim results for the period ended 30 September 2010 respectively. The other Board meetings were held as and when the business and operational needs arose.

Corporate Governance Report

The attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 March 2011 are set out below:

	Attendance/Number of Meetings			
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Xu Zhong Ping	13/21	—	—	—
Zhang Fang Hong	17/21	—	—	—
Song Xuan	3/21	—	—	—
Xu Xiao Yang	9/21	—	—	—
Non-Executive Director:				
Ge Ze Min	2/21	—	—	—
Fong Sai Mo (appointed on 31 July 2010)	2/21	—	—	—
Xin Luo Lin (appointed on 17 March 2011)	1/21	—	—	—
Independent Non-Executive Directors:				
Wong Kam Wah	9/21	2/2	1/1	1/1
Zhu Nan Wen	7/21	2/2	1/1	1/1
Zuo Jiane (appointed on 23 March 2011)	1/21	—	—	—
Gao Ling (resigned on 23 March 2011)	4/21	1/1	1/1	1/1

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2011.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Delegation by the Board

The Board takes responsibility for all major matters of the Company including the setting of objectives and overall strategies, the approval and monitoring of all policy matters, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), appointment of Directors and other significant financial and operational matters.

Corporate Governance Report

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Board delegates day-to-day management, administration and operation of the Company to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

The Board has established 3 committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 March 2011 are set out in note 8 to the financial statements.

Remuneration Committee

As at 31 March 2011, the Remuneration Committee comprised three members, namely Mr. Wong Kam Wah (Chairman), Dr. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include:

(a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;

(b) to make recommendations on the remuneration packages of the executive Directors and the senior management;

(c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

(d) to review and approve the compensation arrangements for the executive Directors and the senior management.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

Corporate Governance Report

The remuneration of the Directors has been determined with reference to their respective qualification, experience, duties and responsibilities in the Company as well as the Group's results and performance for the financial year concerned. The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held one meeting during the year ended 31 March 2011 and the attendance records are set out under "Directors' Attendance Records" on page 30.

Accountability and Audit

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

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

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

The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Board has conducted and was satisfied with the result of a review of the effectiveness of the system of internal control of the Group.

Audit Committee

As at 31 March 2011, the Audit Committee comprised three members, namely Mr. Wong Kam Wah (Chairman), Dr. Zhu Nan Wen and Prof. Zuo Jiane, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

Corporate Governance Report

The main duties of the Audit Committee include the following:

(a) to review the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;

(b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor; and

(c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 March 2010 and the interim results for the period ended 30 September 2010, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor.

The Audit Committee held two meetings during the year ended 31 March 2011 and the attendance records are set out under "Directors' Attendance Records" on page 30.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 35 to 36.

During the year ended 31 March 2011, the remuneration paid to the Company's auditor, CCIF CPA Limited, is set out below:

Category of services	**Fee paid/payable**
Audit service	HK$1,280,000
Non-audit service — reviewing the preliminary announcement of results	HK$50,000
Total	HK$1,330,000

Corporate Governance Report

Communications with Shareholders and Investors

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to promote effective communication, the Company maintains a website at www.cethl.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2511-1878 for any inquiries.

Shareholders' Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the website of the Company and Hong Kong Exchanges and Clearing Limited after the shareholders' meeting.

Independent Auditor's Report

CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED (FORMERLY KNOWN AS YARDWAY GROUP LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Environmental Technology Holdings Limited (formerly known as "Yardway Group Limited") ("the Company") and its subsidiaries (together "the Group") set out on pages 37 to 137, which comprise the consolidated and company statements of financial position as at 31 March 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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 of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 June 2011

Lam Cheung Shing
Practising Certificate Number P03552

Consolidated Income Statement

For the year ended 31 March 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	4	158,709	147,311
Cost of sales		(126,908)	(108,729)
Gross profit		31,801	38,582
Other revenue	5(a)	2,290	1,130
Other net (loss)/income	5(b)	(9,341)	5,891
Distribution costs		(9,025)	(11,246)
Administrative expenses		(65,290)	(31,896)
Net surplus on revaluation of leasehold land and buildings	15(a)	—	739
Valuation gain on investment properties	16	5,860	4,040
Gain on a bargain purchase of subsidiaries	35	1,171	—
(LOSS)/PROFIT FROM OPERATIONS		(42,534)	7,240
Finance costs	6(a)	(226)	(262)
(LOSS)/PROFIT BEFORE TAXATION	6	(42,760)	6,978
Income tax	7(a)	(917)	(3,238)
(LOSS)/PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY		(43,677)	3,740
(LOSS)/EARNINGS PER SHARE *(HK cents)*	12		
— Basic		(1.90 cents)	0.17 cents
— Diluted		(1.90 cents)	0.17 cents

The notes on pages 45 to 137 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Note	2011 HK$'000	2010 HK$'000
(Loss)/profit for the year		**(43,677)**	3,740
Other comprehensive income for the year			
Exchange differences on translation of financial statements of PRC subsidiaries		**6,107**	260
Realisation of exchange differences transferred to profit or loss upon disposal of a subsidiary	*37*	**21**	—
Revaluation surplus on leasehold land and buildings		**5,532**	3,195
Total other comprehensive income, net of tax		**11,660**	3,455
Total comprehensive (loss)/ income for the year		**(32,017)**	7,195

The notes on pages 45 to 137 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March 2011

	Note	31/3/2011 HK$'000	31/3/2010 HK$'000 (Restated)	1/4/2009 HK$'000 (Restated)
NON-CURRENT ASSETS				
Interest in leasehold land held for own use under operating leases	14	426	1,075	1,090
Property, plant and equipment	15	21,896	31,538	47,618
Investment properties	16	51,800	28,630	5,890
Operating concessions	17	117,759	—	—
Intangible assets	18	61,179	—	—
Goodwill	19	—	—	—
Interest in jointly controlled entities	21	—	—	—
Deferred tax assets	28	—	—	242
		253,060	61,243	54,840
CURRENT ASSETS				
Trading securities	22	16,888	32,203	26,385
Inventories	23	11,624	8,196	22,314
Trade and other receivables	24	70,912	56,519	79,987
Current tax recoverable		341	105	105
Pledged bank deposits	25	202	381	11,717
Cash and cash equivalents	25	104,965	102,079	119,230
		204,932	199,483	259,738
CURRENT LIABILITIES				
Trade and other payables	26	83,437	53,679	116,695
Bank loans and overdrafts	27	22,175	3,883	6,114
Obligations under finance leases		—	—	396
Current tax payable		1,171	2,358	256
Provision for warranty	29	1,465	1,874	692
		108,248	61,794	124,153
NET CURRENT ASSETS		96,684	137,689	135,585

Consolidated Statement of Financial Position

As at 31 March 2011

	Note	31/3/2011 HK$'000	31/3/2010 HK$'000 (Restated)	1/4/2009 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**349,744**	198,932	190,425
NON-CURRENT LIABILITIES				
Bank loans and overdrafts	*27*	**23,324**	—	—
Obligations under finance leases		**—**	—	66
Deferred tax liabilities	*28*	**36,254**	3,299	2,450
Provision for warranty	*29*	**514**	529	—
		60,092	3,828	2,516
NET ASSETS		**289,652**	195,104	187,909
CAPITAL AND RESERVES				
Share capital	*32*	**60,775**	55,825	55,825
Share premium and reserves	*33*	**228,877**	139,279	132,084
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**289,652**	195,104	187,909

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

Xu Zhong Ping
Director

Zhang Fang Hong
Director

The notes on pages 45 to 137 form part of these financial statements.

Statement of Financial Position

As at 31 March 2011

	Note	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Plant and equipment	*15*	943	1,024
Interest in subsidiaries	*20*	225,018	167,501
		225,961	168,525
CURRENT ASSETS			
Prepayments and deposits	*24*	941	1,366
Cash and cash equivalents	*25*	5,563	2,672
		6,504	4,038
CURRENT LIABILITIES			
Other payables and accruals	*26*	2,371	870
Financial guarantee liability	*30*	17	55
		2,388	925
NET CURRENT ASSETS		4,116	3,113
NET ASSETS		230,077	171,638
CAPITAL AND RESERVES			
Share capital	*32*	60,775	55,825
Share premium and reserves	*33*	169,302	115,813
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		230,077	171,638

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

Xu Zhong Ping
Director

Zhang Fang Hong
Director

The notes on pages 45 to 137 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

		Attributable to owners of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Tranche II consideration shares HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Revaluation reserve-land and buildings HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2009		55,825	58,833	–	–	(180)	2,481	11,171	2,294	57,485	187,909
Profit for the year		–	–	–	–	–	–	–	–	3,740	3,740
Other comprehensive income:											
Exchange differences on translation of the financial statements of PRC subsidiaries		–	–	–	–	–	260	–	–	–	260
Revaluation surplus, net of deferred tax		–	–	–	–	–	–	3,195	–	–	3,195
		–	–	–	–	–	260	3,195	–	–	3,455
Total comprehensive income		–	–	–	–	–	260	3,195	–	3,740	7,195
Transactions with owners											
Transfer to other reserves		–	–	–	–	–	–	–	276	(276)	–
At 31 March 2010		55,825	58,833	–	–	(180)	2,741	14,366	2,570	60,949	195,104
At 1 April 2010		55,825	58,833	–	–	(180)	2,741	14,366	2,570	60,949	195,104
Loss for the year		–	–	–	–	–	–	–	–	(43,677)	(43,677)
Other comprehensive income:											
Exchange differences on translation of the financial statements of PRC subsidiaries		–	–	–	–	–	6,107	–	–	–	6,107
Realisation of exchange differences transferred to profit or loss upon disposal of a subsidiary	*37*	–	–	–	–	–	21	–	–	–	21
Revaluation surplus, net of deferred tax		–	–	–	–	–	–	5,532	–	–	5,532
		–	–	–	–	–	6,128	5,532	–	–	11,660
Total comprehensive income/(loss)		–	–	–	–	–	6,128	5,532	–	(43,677)	(32,017)
Transactions with owners											
Issuance of new shares	*32(a)(iii)*	3,576	58,424	–	–	–	–	–	–	–	62,000
Shares issue expenses		–	(1,494)	–	–	–	–	–	–	–	(1,494)
Shares issued for business combination	*32(a)(ii)*	937	14,625	–	–	–	–	–	–	–	15,562
Shares issued for acquisition of subsidiaries	*32(a)(iv)*	437	7,249	–	–	–	–	–	–	–	7,686
Deemed contribution	*36*	–	–	–	–	–	–	–	6,785	–	6,785
Consideration shares to be issued for acquisition of subsidiaries	*33(b)*	–	–	27,274	–	–	–	–	–	–	27,274
Equity-settled share-based transactions		–	–	–	8,752	–	–	–	–	–	8,752
Transfer to other reserves		–	–	–	–	–	–	–	1,469	(1,469)	–
Total transactions with owners		4,950	78,804	27,274	8,752	–	–	–	8,254	(1,469)	126,565
At 31 March 2011		60,775	137,637	27,274	8,752	(180)	8,869	19,898	10,824	15,803	289,652

The notes on pages 45 to 137 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Note	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
(Loss)/profit before taxation		(42,760)	6,978
Adjustments for:			
Valuation gain on investment properties	16	(5,860)	(4,040)
Net surplus on revaluation of leasehold land and buildings		—	(739)
Depreciation	15	3,125	3,404
Amortisation of interest in leasehold land held for own use under operating leases	14	25	24
Amortisation of operating concessions	17	2,275	—
Amortisation of intangible assets	18	1,934	—
Impairment losses on trade receivables	24(a)(ii)	6,685	443
Impairment loss on retentions receivable	24(b)	6,362	—
(Reversal of write-down)/write-down of inventories		(1,859)	1,792
Finance costs		878	262
Dividend income from listed securities		—	(2)
Interest income		(139)	(102)
Net loss on disposal of property, plant and equipment		269	34
Net gain on sale of trading securities		(267)	(175)
Net unrealised loss/(gain) on trading securities at fair value		10,930	(5,907)
Gain from a bargain purchase of subsidiaries	35	(1,171)	—
Write back of trade payables		(1,299)	—
Equity-settled share-based payments		8,752	—
Foreign exchange (gain)/loss		(287)	73
		(12,407)	2,045
CHANGES IN WORKING CAPITAL			
Decrease in inventories		4,456	12,400
(Increase)/decrease in trade and other receivables		(22,451)	23,371
Increase/(decrease) in trade and other payables		8,302	(63,693)
(Decrease)/increase in provision for warranty		(424)	1,713
CASH USED IN OPERATIONS		(22,524)	(24,164)
Income tax paid			
Hong Kong		(948)	(258)
The People's Republic of China ("PRC")		(1,869)	(655)
		(2,817)	(913)
NET CASH USED IN OPERATING ACTIVITIES		(25,341)	(25,077)

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Note	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment		(3,564)	(1,228)
Proceeds from disposal of property, plant and equipment		249	138
Payment for a business combination, net of cash and cash equivalents acquired	35	(35,589)	—
Payment for purchase of operating concessions		(44,042)	—
Net cash inflow for acquisition of subsidiaries, net of cash and cash equivalents acquired	36	5,138	—
Proceeds from disposal of a subsidiary	37	21	—
Payments for purchase of club membership		(1,849)	—
Payment for purchase of trading securities		—	(731)
Proceeds from sale of trading securities		4,652	996
Decrease in pledged bank deposits		179	11,782
Interest income received		139	102
Dividends received from listed securities		—	2
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(74,666)	11,061
FINANCING ACTIVITIES			
Capital element of finance lease rentals paid		—	(462)
Proceeds from new bank loans		44,950	7,469
Repayment of bank loans		(4,084)	(9,538)
Net proceeds from issuance of new shares		60,506	—
Interest paid		(878)	(200)
Finance charges on finance lease rentals paid		—	(62)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		100,494	(2,793)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		487	(16,809)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		102,079	119,069
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		2,399	(181)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	104,965	102,079

The notes on pages 45 to 137 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2011

1. Organisation and principal activities

China Environmental Technology Holdings Limited (formerly known as "Yardway Group Limited") (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 August 2001 and its shares are listed on Main Board of The Stock Exchange of Hong Kong Limited.

Pursuant to a special resolution passed at the extraordinary general meeting held on 29 December 2010, the name of the Company was changed from "Yardway Group Limited" to "China Environmental Technology Holdings Limited".

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 20 to the financial statements.

2. Significant accounting policies

a) Statement of compliance

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

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

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

b) Basis of preparation of the financial statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investment in equity securities (see note 2(g));

— leasehold land and buildings (see note 2(i)); and

— investment properties (see note 2(h)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

c) Subsidiaries and non-controlling interests

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

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

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

2. Significant accounting policies (Continued)

c) Subsidiaries and non-controlling interests (Continued)

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 April 2010

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 April 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

In the Company's statement of financial position, interest in subsidiaries is stated at cost less impairment losses (see note 2(m)).

d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

d) Jointly controlled entities (Continued)

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Group's statement of financial position, investments in jointly controlled entities are stated at cost less impairment losses (see note 2(m)).

e) Business combinations

Business combinations on or after 1 April 2010

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

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

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

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

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

2. Significant accounting policies (Continued)

e) Business combinations (Continued)

Business combinations on or after 1 April 2010 (Continued)

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

e) Business combinations (Continued)

Business combinations on or after 1 April 2010 (Continued)

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

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

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

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

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

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

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

2. Significant accounting policies (Continued)

f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

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

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

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

g) Investment in equity securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(x)(v) and (vi) respectively.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or when they expire.

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(l)) to earn rental income and/or capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(x)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(l)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(l).

i) Property, plant and equipment

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

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

The following properties held for own use are stated in the statement of financial position at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

— land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 2(l)).

Revaluations are performed with sufficient regularity to ensure the carrying amount of these assets does not differ materially from that which would be determined using fair values at the end of the reporting period.

2. Significant accounting policies (Continued)

i) Property, plant and equipment (Continued)

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Other items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(m)).

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

i) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years from the date of completion.

— Furniture, fixtures and equipment 5 years

— Motor vehicles 3 to 5 years

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

j) Service concession arrangements

Consideration given by the grantor

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible (operating concession) is accounted for in accordance with the policy set out in note 2(k).

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out in note 2(o).

Operating services

Revenue and costs relating to operating services are accounted for in accordance with the policy set out in note 2(x)(ii).

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage and water treatment plants, except for upgrade element, are recognised and measured in accordance with the policy set out in note 2(w)(iii).

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

k) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition of cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each end of the reporting period.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions represent the rights to operate a sewage and water treatment plant and are stated at the fair value as at the date of acquisition and are subsequently amortised over the operating concessions period and assessed for impairment whenever there is an indication that the operating concessions may be impaired. Amortisation is provided on the straight-line basis over the period of the operating concessions granted to the Group of 30 years from April 2010 to March 2040.

Patent

Purchased patent is stated at cost less accumulated amortisation and any accumulated impairment losses. The cost of patent acquired in a business combination is the fair value as at the date of acquisition. Amortisation is provided on a straight-line basis over a useful life of 8 years from the date of acquisition to 16 October 2018.

Club membership

Club membership is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over its useful life of 23 years.

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

l) Leased assets

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

i) Classification of assets leased to the Group

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

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

ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

m) Impairment of assets

i) Impairment of investment in equity securities and other receivables

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

— significant financial difficulty of the debtor;

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

— it becomes probable that the debtor will enter into bankruptcy or other financial reorganisation;

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

2. Significant accounting policies (Continued)

m) Impairment of assets (Continued)

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

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

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

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

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

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

ii) Impairment of other assets

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

— prepaid lease payments;

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

— intangible assets;

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

m) Impairment of assets (Continued)

ii) Impairment of other assets (Continued)

— interest in subsidiaries and jointly controlled entities; and

— goodwill.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

n) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(m)).

Impairment losses recognised in an interim period in respect of goodwill carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

o) Construction contracts

Contract revenue represents construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract cost incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction of a sewage treatment plant under the terms of BOT contracts (service concession agreements) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

p) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

q) Trade and other receivables

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

r) Interest-bearing borrowings

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

s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

t) Cash and cash equivalents

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

u) Employee benefits

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

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

ii) Share-based payments

Share options granted to employees

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

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

2. Significant accounting policies (Continued)

u) Employee benefits (Continued)

ii) Share-based payments (Continued)

Share options granted to consultants and other qualified participants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or service received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

iii) Termination benefits

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

v) Income tax

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

v) Income tax (Continued)

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

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

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

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

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

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

  — the same taxable entity; or

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

w) Financial guarantees issued, provisions and contingent liabilities

i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(w)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

ii) *Contingent liabilities assumed in business combinations*

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

iii) *Other provisions and contingent liabilities*

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

x) Revenue recognition

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

i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Service concession construction revenue

Revenue relating to construction services under a service concession arrangement is recognized based on the stage of completion of the work performed in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

iii) Sewage treatment revenue

Revenue arising from operation of sewage treatment plants is recognised based on actual sewage treated from meter reading or the amount billed in accordance with terms of contractual agreements where applicable during the year.

iv) Commission and service

Commission and service income are recognised when services are rendered.

v) Dividend income from listed investments

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

vi) Interest income

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

vii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

2. Significant accounting policies (Continued)

y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the profit or loss.

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

The results of PRC and foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or asset 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

z) Borrowing costs

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

2. Significant accounting policies (Continued)

aa) Related parties

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

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

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

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

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

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

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

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

ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

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

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

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKFRS 3 (revised 2008), Business combinations

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 3 (revised 2008), Business combinations (Continued)

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

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

For acquisitions effected during the year ended 31 March 2011, the following disclosure shall, where applicable, be applied.

In the current year, the application of HKFRS 3 (revised 2008) has affected the business combination of Fanhe Water Group (note 35) as follows:

	HK$'000
Consolidated statement of comprehensive income	
Acquisition-related costs expensed	2,189
Gain on a bargain purchase of subsidiaries	(1,171)
Increase in loss for the year as a result of the application of HKFRS 3 (revised 2008)	1,018

	HK$'000
Consolidated statement of financial position	
Goodwill that would have been recorded before the application of HKFRS 3 (revised 2008)	1,018
Decrease in net assets as a result of the application of HKFRS 3 (revised 2008)	1,018

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

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

Notes to the Financial Statements

For the year ended 31 March 2011

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009 (Continued)

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 April 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively.

The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

Hong Kong Interpretation 5, Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

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

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$3,550,000 and HK$3,883,000 have been reclassified from non-current liabilities to current liabilities as at 31 March 2010 and 1 April 2009 respectively. As at 31 March 2011, bank loans that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause with an aggregate carrying amount of HK$9,395,000 have been classified as current liabilities. The application of HK (Int) 5 has had no impact on the reported profit or loss for the current and prior years.

The effect of adoption of Hong Kong Interpretation 5 is as follows:

	31/3/2011 HK$'000	31/3/2010 HK$'000	1/4/2009 HK$'000
Current liabilities			
Increase in secured bank loans	**9,395**	3,550	3,883
Non-current liabilities			
Decrease in secured bank loans	**(9,395)**	(3,550)	(3,883)

Such bank loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities. (See note 34 for details.)

Notes to the Financial Statements

For the year ended 31 March 2011

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Summary of the effects of the above changes in accounting policies

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

i) *Results*

The effects of changes in accounting policies described above on the results for the current and prior year by line items are as follows:

	2011 HK$'000	2010 HK$'000
Increase in administrative expenses	2,189	—
Gain on a bargain purchase of subsidiaries	(1,171)	—
Increase in loss for the year	1,018	—

ii) *Financial position*

The effects of the above changes in accounting policies on the financial position of the Group as at 1 April 2009 and 31 March 2010 are as follows:

	As at 31/3/2010 (originally stated) HK$'000	Adjustments HK$'000	As at 31/3/2010 (restated) HK$'000	As at 1/4/2009 (originally stated) HK$'000	Adjustments HK$'000	As at 1/4/2009 (restated) HK$'000
Current liabilities — Bank loans and overdrafts	333	3,550	3,883	2,231	3,883	6,114
Non-current liabilities						
— Bank loans and overdrafts	3,550	(3,550)	—	3,883	(3,883)	—
Total effects on net assets	—	—	—	—	—	—
Total effects on equity	—	—	—	—	—	—

Notes to the Financial Statements

For the year ended 31 March 2011

4. Turnover

The principal activities of the Group are trading of vehicles, machinery, equipment, spare parts, provision of engineering services and provision of sewage treatment and construction services.

Turnover represents the sales value of goods supplied to customers, sewage treatment and construction service income, engineering service income and commission income. The amount of each significant category of revenue recognised in turnover during the year is as follows.

	2011 HK$'000	2010 HK$'000
Sales of goods	87,642	131,512
Construction of sewage treatment plants	43,117	—
Sewage treatment services	17,652	—
Engineering service income	9,646	11,923
Commission income	652	3,876
	158,709	147,311

5. Other revenue and other net income/(loss)

	2011 HK$'000	2010 HK$'000
a) Other revenue		
Interest income on bank deposits	139	102
Total interest income on financial assets not at fair value through profit or loss	139	102
Gross rental income from investment properties	1,121	590
Dividend income from listed securities	—	2
Others	1,030	436
	2,290	1,130
b) Other net (loss)/income		
Reversal of impairment loss on trade receivables	—	267
Net exchange gain/(loss)	292	(424)
Net loss on disposal of property, plant and equipment	(269)	(34)
Net gain on sale of trading securities	267	175
Write back of trade payables	1,299	—
Net unrealised (loss)/gain on trading securities carried at fair value	(10,930)	5,907
	(9,341)	5,891

Notes to the Financial Statements

For the year ended 31 March 2011

6. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting) the following:

	2011 HK$'000	2010 HK$'000
a) Finance costs *(note)*		
Interest on bank borrowings wholly repayable within five years	878	98
Interest on bank borrowings not wholly repayable within five years	—	102
Finance charges on obligations under finance leases	—	62
Total interest expenses on financial liabilities not at fair value through profit or loss	878	262
Less: interest included in cost of construction contracts	(652)	—
	226	262

Note:

The amount of finance costs includes bank loans which contain a repayment on demand clause in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 March 2011 and 2010, interest on bank borrowings which contain a repayment on demand clause amounted to HK$165,000 and HK$102,000 respectively.

	2011 HK$'000	2010 HK$'000
b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	24,603	24,369
Equity settled share-based payments	5,420	—
Contributions to defined contribution retirement plans	977	884
	31,000	25,253

Notes to the Financial Statements

For the year ended 31 March 2011

6. (Loss)/profit before taxation (Continued)

	Note	2011 HK$'000	2010 HK$'000
c) Other items			
Amortisation of operating concessions*	*17*	**2,275**	—
Amortisation of intangible assets*	*18*	**1,934**	—
Amortisation of interest in leasehold land held for own use under operating leases	*14*	**25**	24
Cost of inventories	*23*	**77,111**	96,674
Cost of construction contracts#		**38,512**	—
Cost of sewage treatment services rendered		**4,404**	—
Depreciation			
— assets held for own use under finance leases		**—**	354
— owned assets		**3,125**	3,050
(Decrease)/increase in provision for warranty		**(424)**	1,711
Equity settled share-based payment expenses for consultants and other qualified participants		**3,332**	—
Impairment loss on trade receivables		**6,685**	443
Impairment loss on retentions receivable		**6,362**	—
Auditors' remuneration			
— audit services		**1,334**	911
— other services		**50**	40
Operating lease charges in respect of properties:			
— minimum lease payments		**4,049**	2,758
Gross rental income from investment properties		**(1,121)**	(590)
Direct operating expenses arising from			
— investment properties that generated rental income		**82**	13
— investment properties that did not generate rental income		**17**	23
		99	36

* The amortization of operating concessions and intangible assets are included in "Cost of sales" on the face of the consolidated income statement.

\# Cost of construction contracts includes HK$652,000 relating to finance costs, which amount is also included in the total amount disclosed in note 6(a) above.

Notes to the Financial Statements

For the year ended 31 March 2011

7. Income tax in the consolidated income statement

a) Income tax in the consolidated income statement represents:

	2011 HK$'000	2010 HK$'000
Current tax		
Hong Kong profits tax	–	721
PRC enterprise income tax	1,226	2,294
	1,226	3,015
Under-provision in respect of prior years		
Hong Kong profits tax	106	–
	1,332	3,015
Deferred tax		
Current year	(415)	223
Total	917	3,238

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the year ended 31 March 2011. Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the year ended 31 March 2010.

The PRC Enterprise Income Tax provision in respect of operations in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, Fanhe (Hulu Island) Water Investment Co., Ltd. ("Fanhe Hulu"), a wholly-owned subsidiary of the Company, enjoys Enterprise Income Tax exemptions and reductions, by reason that Fanhe Hulu is engaged in the operations of sewage treatment.

Yardway Logistics Equipment (Zhuhai) Company Limited ("Yardway Zhuhai") is a foreign investment enterprise entitled to exemption from PRC Enterprise Income Tax for two years starting from the first profit-making year, followed by 50% relief for the three years thereafter. Yardway Zhuhai is subject to a preferential tax rate of 20%, 22% and 24% for the calendar years of 2009, 2010 and 2011 respectively, and at a tax rate of 25% starting from calendar year of 2012.

Except for Yardway Zhuhai and Fanhe Hulu, the provision for PRC Enterprise Income Tax for the Company's subsidiaries in the PRC is based on PRC Enterprise Income Tax rate at 25% of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

Withholding tax (applicable to PRC subsidiaries which pays dividend, interest, rent, royalty to non-resident companies). Pursuant to the new PRC Corporate Income Tax Law which took effect from 1 January 2008, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from mainland China effective 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign enterprise investors.

Notes to the Financial Statements

For the year ended 31 March 2011

7. Income tax in the consolidated income statement (Continued)

a) Income tax in the consolidated income statement represents: (Continued)

Deferred tax liabilities of HK$1,223,000 (2010: HK$184,000) have not been recognised as at 31 March 2011, as the Company controls the dividend policy of the subsidiaries in mainland China and it has been determined that it is probable that certain of the profits earned by the Group's subsidiaries in mainland China since 1 January 2008 will not be distributed in the foreseeable future.

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

	2011 HK$'000	2010 HK$'000
(Loss)/profit before taxation	(42,760)	6,978
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the tax jurisdictions concerned	(7,640)	1,172
Tax concession enjoyed	(3,711)	—
Tax effect of non-deductible expenses	5,610	1,990
Tax effect of non-taxable income	(1,537)	(108)
Tax effect of unused tax losses not recognised	8,090	589
Tax effect of utilization of unused tax losses not recognised in prior years	(1)	(405)
Under provision in prior years	106	—
Actual tax expense	917	3,238

c) The tax charge relating to each component of other comprehensive income is as follows:

	2011			2010		
	Before-tax amount HK$'000	Tax charge HK$'000	Net-of-tax amount HK$'000	Before-tax amount HK$'000	Tax charge HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of PRC subsidiaries	6,107	—	6,107	260	—	260
Realization of exchange differences transferred to profit or loss upon disposal of a subsidiary	21	—	21	—	—	—
Revaluation surplus on leasehold land and buildings	5,789	(257)	5,532	4,053	(858)	3,195
	11,917	(257)	11,660	4,313	(858)	3,455

Notes to the Financial Statements

For the year ended 31 March 2011

8. Directors' emoluments

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

Year ended 31 March 2011

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Equity settled share-based payment HK$'000 (note (a))	Total HK$'000
Executive directors						
Xu Zhong Ping	–	1,650	–	1,650	318	1,968
Zhang Fang Hong	–	1,260	–	1,260	3,183	4,443
Song Xuan	–	–	–	–	–	–
Xu Xiao Yang	–	585	–	585	434	1,019
Non-executive director						
Ge Ze Min	–	–	–	–	–	–
Fong Sai Mo (appointed on 31 July 2010)	–	–	–	–	–	–
Xin Luo Lin (appointed on 17 March 2011)	–	–	–	–	–	–
Independent non-executive directors						
Gao Ning (resigned on 23 March 2011)	120	–	–	120	–	120
Wong Kam Wah	130	–	–	130	–	130
Zhu Nan Wen	130	–	–	130	–	130
Zuo Jiane (appointed on 23 March 2011)	–	–	–	–	–	–
	380	3,495	–	3,875	3,935	7,810

8. Directors' emoluments (Continued)

Year ended 31 March 2010

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Equity settled share-based payment HK$'000 (note (a))	Total HK$'000
Executive directors						
Song Xuan	—	—	—	—	—	—
Xu Xiao Yang	—	585	—	585	—	585
Xu Zhong Ping (appointed on 31/12/2009)	—	270	—	270	—	270
Zhang Fang Hong (appointed on 31/12/2009)	—	180	—	180	—	180
Li Song Xiao (resigned on 13/1/2010)	—	930	—	930	—	930
Yuan Ku (resigned on 13/1/2010)	—	220	—	220	—	220
Lu Zhao Qun (resigned on 21/4/2009)*	—	59	—	59	—	59
Non-executive director						
Ge Ze Min (appointed on 31/12/2009)	—	—	—	—	—	—
Independent non-executive directors						
Wong Kam Wah (appointed on 31/12/2009)	20	—	—	20	—	20
Zhu Nan Wen (appointed on 31/12/2009)	20	—	—	20	—	20
Gao Ning	110	—	—	110	—	110
Cui Yong (resigned on 13/1/2010)	90	—	—	90	—	90
Zhang Qing Lin (resigned on 13/1/2010)	90	—	—	90	—	90
	330	2,244	—	2,574	—	2,574

* Total remuneration paid to Mr. Lu Zhao Qun for the year ended 31 March 2010 was HK$1,353,000 of which HK$1,294,000 was included in note 9 "individuals with highest emoluments" after his resignation of director on 21 April 2009.

Note:

a) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(u)(ii).

The details of these benefit in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 31.

b) During both years, no remuneration was paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during both years.

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For the year ended 31 March 2011

9. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2010: one) are the directors of the Company whose emoluments are included in the disclosure in note 8 above. The emoluments of the remaining two (2010: four) individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other emoluments	2,024	4,041
Discretionary bonuses	44	1,430
Retirement scheme contributions	—	21
Equity settled share-based payments	387	—
	2,455	5,492*

The emoluments of the two (2010: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2011	2010
HK$Nil–HK$1,000,000	1	2
HK$1,000,001–HK$1,500,000	—	1
HK$1,500,001–HK$2,000,000	1	—
HK$2,000,001–HK$2,500,000	—	—
HK$2,500,001–HK$3,000,000	—	1
	2	4

* Including the remuneration paid to Mr. Lu Zhao Qun as disclosed in note 8 above.

10. (Loss)/profit attributable to owners of the Company

The consolidated (loss)/profit attributable to owners of the Company includes a loss of HK$34,068,000 (2010: HK$8,398,000) which has been dealt with in the financial statements of the Company.

11. Dividends

The Board does not recommend the payment of any dividend for the year ended 31 March 2011 (2010: HK$Nil).

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For the year ended 31 March 2011

12. (Loss)/earnings per share

a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the loss attributable to owners of the Company of HK$43,677,000 (2010: profit of HK$3,740,000) and the weighted average number of 2,297,409,000 ordinary shares (2010: 2,232,992,000 ordinary shares) in issue during the year. The weighted average number of ordinary shares used in the calculation of basic (loss)/earnings per share for the year ended 31 March 2010 has accounted for the share sub-division which was effective from 2 March 2010.

b) Diluted (loss)/earnings per share

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2011 as the Company did not take into account for the effect of share options granted during the year ended 31 March 2011 since this would result in a decrease in loss per share.

Diluted earnings per share equals to the basic earning per share as there were no potential dilutive ordinary shares outstanding for the year ended 31 March 2010.

c) Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in detail in note 3. The table below summarises that impact on both basic and diluted (loss)/ earnings per share.

	(Increase)/decrease in loss for the year		(Increase)/decrease in basic loss per share		(Increase)/decrease in diluted loss per share	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK cents per share**	HK cents per share	**HK cents per share**	HK cents per share
Changes in accounting policies relating to:						
Business combinations						
— acquisition-related costs expensed	**(2,189)**	—	**(0.10)**	—	**(0.10)**	—
— gain on a bargain purchase of subsidiaries	**1,171**	—	**0.05**	—	**0.05**	—
	(1,018)	—	**(0.05)**	—	**(0.05)**	—

Notes to the Financial Statements

For the year ended 31 March 2011

13. Segment reporting

The Group manages its business by division which is organised from the product perspective.

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the board of directors, being the chief operating decision-makers ("CODM") for the purposes of resource allocation and performance assessment. The Group has presented the following six reportable segments , no reportable segment has been aggregated to form following reporting segments:

1. Aviation, metro and railway equipment

   This segment derives its revenue from sales of train and track maintenance equipment and airport ground support equipment.

2. Vehicles and spare parts

   This segment derives its revenue from sales of coaches, trucks and spare parts of bus.

3. Dredging equipment

   This segment derives its revenue from sales of components of dredging equipment.

4. Provision of engineering services

   This segment provides warranty and maintenance services and after-sales services.

5. Sewage treatment and construction services

   This segment engages in the provision of sewage treatment plants construction and operation services on a Build-Operate-Transfer ("BOT") basis.

6. Sewage treatment equipment trading

   This segment engages in the trading of sewage treatment facilities and machinery and provision for related services.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2(ab). Segment profit/(loss) represents the profit earned by/(loss) from each segment without allocation of central administration costs such as directors' salaries, investment income and finance costs. This is the measure reported to the CODM for purposes of resource allocation and performance assessment. Taxation charge/(credit) is not allocated to reportable segment.

Notes to the Financial Statements

For the year ended 31 March 2011

13. Segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

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

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement.

All assets are allocated to reportable segments other than tax recoverable, trading securities, club membership and corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than current and deferred tax liabilities, borrowings not attributable to individual segments and corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

An analysis of the Group's reportable segment is reported below.

	Aviation, metro and railway equipment		Vehicles and spare parts		Dredging equipment		Provision of engineering services		Sewage treatment and construction services		Sewage treatment equipment trading		Others		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Segment revenue																
Revenue from external customers	**63,805**	75,066	**14,228**	36,232	**10,262**	24,258	**9,645**	11,755	**60,769**	–	**–**	–	**–**	–	**158,709**	147,311
Reportable segment (loss)/profit before taxation	**(12,372)**	(1,432)	**(1,940)**	(2,665)	**(351)**	1,815	**(427)**	1,548	**12,570**	–	**(3,491)**	–	**–**	(304)	**(6,011)**	(1,038)
Interest income	**13**	74	**5**	9	**1**	–	**–**	5	**97**	–	**2**	–	**–**	1	**118**	89
Finance costs	**60**	51	**–**	–	**–**	16	**–**	–	**1**	–	**–**	–	**–**	–	**61**	67
Depreciation and amortisation	**1,470**	1,571	**13**	12	**7**	7	**105**	204	**2,386**	–	**1,958**	–	**–**	–	**5,939**	1,794
(Reversal of write-down)/write-down of inventories	**(506)**	(1,136)	**(1,363)**	1,615	**10**	342	**–**	971	**–**	–	**–**	–	**–**	–	**(1,859)**	1,792
(Reversal of impairment loss)/impairment loss on																
– Trade receivables	**6,685**	(174)	**–**	353	**–**	–	**–**	(3)	**–**	–	**–**	–	**–**	–	**6,685**	176
– Retention receivables	**6,362**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**6,362**	–
Reportable segment assets	**135,193**	109,616	**6,556**	24,149	**6,104**	2,936	**2,011**	8,705	**190,992**	–	**76,373**	–	**–**	–	**417,229**	145,406
Additions to non-current assets (other than financial assets and deferred tax assets)	**–**	18	**31**	69	**–**	–	**–**	1	**117,142**	–	**60,488**	–	**–**	–	**177,661**	88
Reportable segment liabilities	**49,217**	37,059	**4,833**	11,916	**4,263**	1,843	**2,438**	3,052	**44,146**	–	**4,934**	–	**–**	–	**109,831**	53,870

Note: There were no inter-segment sales in both years.

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For the year ended 31 March 2011

13. Segment reporting (Continued)

b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other items

	2011 HK$'000	2010 HK$'000
Profit/(loss)		
Reportable segments' loss	(6,011)	(1,038)
Other revenue and other net (loss)/income	(9,844)	10,923
Depreciation and amortisation	(1,420)	(1,634)
Finance costs	(165)	(195)
Gain on a bargain purchase of subsidiaries	1,171	—
Valuation gain on investment properties	5,860	4,040
Net surplus on revaluation of leasehold land and buildings	—	739
Unallocated head office and corporate expenses	(32,351)	(5,857)
Consolidated (loss)/ profit before taxation	(42,760)	6,978
Assets		
Reportable segments' assets	417,229	145,406
Unallocated		
— current tax recoverable	341	105
— trading securities	16,888	32,203
— cash and cash equivalents	10,918	69,385
— corporate assets	12,616	13,627
Consolidated total assets	457,992	260,726
Liabilities		
Reportable segments' liabilities	109,831	53,870
Unallocated		
— current tax payable	1,171	2,358
— deferred tax liabilities	36,254	3,299
— bank loans and overdrafts	9,799	3,883
— corporate liabilities	11,285	2,212
Consolidated total liabilities	168,340	65,622

Notes to the Financial Statements

For the year ended 31 March 2011

13. Segment reporting (Continued)

b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other items (Continued)

Other items

	Aviation metro and railway equipment		Vehicles and spare parts		Dredging equipment		Provision of engineering services		Sewage treatment and construction services		Sewage treatment equipment trading		Others		Unallocated		Consolidated	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Interest income	**13**	74	**5**	9	**1**	–	**–**	5	**97**	–	**2**	–	**–**	1	**21**	13	**139**	102
Finance costs	**60**	51	**–**	–	**–**	16	**–**	–	**1**	–	**–**	–	**–**	–	**165**	195	**226**	262
Depreciation and amortisation	**1,470**	1,571	**13**	12	**7**	7	**105**	204	**2,386**	–	**1,958**	–	**–**	–	**1,420**	1,634	**7,359**	3,428
Additions to non-current assets (other than financial assets and deferred tax assets)	**–**	18	**31**	69	**–**	–	**–**	1	**117,142**	–	**60,488**	–	**–**	–	**4,881**	1,140	**182,542**	1,228

c) Revenue from major product and services

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

	2011 HK$'000	2010 HK$'000
Railway equipment	**63,152**	71,191
Dredging equipment	**10,262**	24,258
Vehicles parts	**13,073**	22,483
Coaches	**1,155**	13,690
Sewage treatment plant construction services	**43,117**	—
Warranty maintenance and after-sales services	**10,298**	15,689
Operation of sewage treatment plant services	**17,652**	—
	158,709	147,311

d) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers is refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include interest in leasehold land held for own use under operating leases, property, plant and equipment, investment properties, interest in jointly controlled entities, operating concessions, intangible assets and goodwill. The geographical location of interest in leasehold land held for own use under operating leases, investment properties and property, plant and equipment is based on the physical location of the asset under consideration. In the case of operating concessions, intangible assets and goodwill, it is based on the location of operation to which these intangibles are allocated. In the case of interest in jointly controlled entities, it is the location of operations of such jointly controlled entities.

Notes to the Financial Statements

For the year ended 31 March 2011

13. Segment reporting (Continued)

d) Geographical information (Continued)

	Revenues from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**11,000**	29,759	**27,645**	40,935
Mainland China	**136,413**	91,721	**225,415**	20,308
Europe	**11,296**	25,831	**—**	—
	158,709	147,311	**253,060**	61,243

e) Information about major customers

Revenues from customers contributing 10% or more of the total revenue of the Group are as follows:

	2011	2010
	HK$'000	HK$'000
Customer A — revenue from sewage treatment and construction services — PRC	**60,769**	—
Customer B — revenue from railway equipment — USA	**54,644**	—
Customer C — revenue from dredging equipment — Europe	**—** *Note*	25,737
Customer D — revenue from railway equipment — PRC	**—** *Note*	28,125
Customer E — revenue from metro equipment — PRC	**—**	25,492

Note:

The revenue from customer C and D was less than 10% of the Group's revenue for the year ended 31 March 2011.

14. Interest in leasehold land held for own use under operating leases

The Group

	HK$'000
Cost	
At 1 April 2009	1,211
Exchange adjustments	11
At 31 March 2010	1,222
At 1 April 2010	1,222
Exchange adjustments	26
Transfer to investment properties *(note 16)*	(752)
At 31 March 2011	496
Accumulated amortisation	
At 1 April 2009	121
Exchange adjustments	2
Charge for the year	24
At 31 March 2010	147
At 1 April 2010	147
Exchange adjustments	3
Transfer to investment properties *(note 16)*	(105)
Charge for the year	25
At 31 March 2011	70
Carrying amount	
At 31 March 2011	426
At 31 March 2010	1,075

The interest in leasehold land held for own use under operating leases represents prepaid operating lease payments in mainland China under medium-term lease which were amortised over the lease term of 50 years on a straight-line basis.

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For the year ended 31 March 2011

15. Property, plant and equipment

The Group

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation				
At 1 April 2009	40,140	14,185	3,547	57,872
Exchange adjustments	148	59	9	216
Additions	—	1,227	1	1,228
Transfer to investment properties *(note 16)*	(18,700)	—	—	(18,700)
Disposals	—	(2,036)	(388)	(2,424)
Surplus on revaluation	4,792	—	—	4,792
Less: Elimination of accumulated depreciation	(723)	—	—	(723)
At 31 March 2010	25,657	13,435	3,169	42,261
Representing				
Cost	—	13,435	3,169	16,604
Valuation — 2010	25,657	—	—	25,657
	25,657	13,435	3,169	42,261
Cost or valuation				
At 1 April 2010	25,657	13,435	3,169	42,261
Exchange adjustments	282	305	61	648
Additions upon acquisition of Fanhe Water Group *(note 35)*	—	—	191	191
Additions upon acquisition of Power Score Group *(note 36)*	—	245	41	286
Additions	—	1,377	2,187	3,564
Transfer to investment properties *(note 16)*	(11,670)	—	—	(11,670)
Disposals	—	(1,221)	(889)	(2,110)
Surplus on revaluation	1,215	—	—	1,215
Less: Elimination of accumulated depreciation	(520)	—	—	(520)
At 31 March 2011	14,964	14,141	4,760	33,865
Representing				
Cost	—	14,141	4,760	18,901
Valuation — 2011	14,964	—	—	14,964
	14,964	14,141	4,760	33,865

Notes to the Financial Statements

For the year ended 31 March 2011

15. Property, plant and equipment (Continued)

The Group (Continued)

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Accumulated depreciation				
At 1 April 2009	—	7,952	2,302	10,254
Exchange adjustments	—	33	7	40
Charge for the year	723	2,017	664	3,404
Written back on disposals	—	(1,864)	(388)	(2,252)
Less: Elimination of accumulated depreciation	(723)	—	—	(723)
At 31 March 2010	—	8,138	2,585	10,723
At 1 April 2010	—	8,138	2,585	10,723
Exchange adjustments	—	195	38	233
Charge for the year	520	2,043	562	3,125
Written back on disposals	—	(793)	(799)	(1,592)
Less: Elimination of accumulated depreciation	(520)	—	—	(520)
At 31 March 2011	—	9,583	2,386	11,969
Carrying amount				
At 31 March 2011	14,964	4,558	2,374	21,896
At 31 March 2010	25,657	5,297	584	31,538

a) The Group's leasehold land and buildings were revalued as at 31 March 2011 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets and/or (ii) a depreciated replacement cost basis calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by an independent firm of surveyors, BMI Appraisal Limited (2010: RHL Appraisal Limited), who has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The revaluation surplus of HK$1,215,000 (2010: HK$4,053,000) for the Group's leasehold land and buildings has been transferred to the revaluation reserve, net of deferred tax (note 28(a)). For the year ended 31 March 2011, there was revaluation surplus of HK$Nil (2010: HK$739,000) for the Group's leasehold land and buildings credited to the consolidated income statement.

   The carrying amount of the leasehold land and buildings of the Group at 31 March 2011 would have been HK$10,633,000 (2010: HK$17,061,000) had they been carried at cost less accumulated depreciation.

Notes to the Financial Statements

For the year ended 31 March 2011

15. Property, plant and equipment (Continued)

The Group (Continued)

b) An analysis of carrying amount of leasehold land and buildings

	2011	2010
	HK$'000	HK$'000
In Mainland China		
— long-term leases	**12,210**	9,320
— medium-term leases	**2,754**	16,337
	14,964	25,657

The Company

	Furniture, fixtures and equipment
	HK$'000
Cost	
At 1 April 2009	116
Additions	996
Disposals	(57)
At 31 March 2010 and 1 April 2010	1,055
Additions	153
At 31 March 2011	1,208
Accumulated depreciation	
At 1 April 2009	35
Charge for the year	24
Written back on disposals	(28)
At 31 March 2010 and 1 April 2010	31
Charge for the year	234
At 31 March 2011	265
Carrying amount	
At 31 March 2011	943
At 31 March 2010	1,024

Notes to the Financial Statements

For the year ended 31 March 2011

16. Investment properties

	The Group	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**28,630**	5,890
Exchange adjustments	**419**	—
Transfer from interest in leasehold land held for own use under operating leases (note (a))	**5,221**	—
Transfer from leasehold land and buildings (note 15)	**11,670**	18,700
Gain on fair value adjustment	**5,860**	4,040
At end of the year	**51,800**	28,630

a) The fair value of the properties transferred from properties, plant and equipment and interest in leasehold land held for own use under operating leases at the date of transfer had been arrived at on the basis of a valuation carried out on that day by BMI Appraisal Limited, an independent firm of surveyors not connected to the Group, who has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

b) The Group's investment properties were revalued as at 31 March 2011 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets; and (ii) investment approach by taking into account the current rents passing of the properties being held under existing tenancies and reversionary potential of the tenancies. The valuations were carried out by BMI Appraisals Limited (2010: RHL Appraisal Limited), an independent firm of surveyors not connected to the Group, who has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation gain of HK$5,860,000 (2010: HK$4,040,000) for the Group's investment properties has been credited to the consolidated income statement.

c) The analysis of the carrying amount of the investment properties is as follows:

	2011	2010
	HK$'000	HK$'000
In Hong Kong		
— medium-term leases	**25,800**	20,000
In the PRC		
— long-term leases	**5,120**	4,310
— medium-term leases	**20,880**	4,320
	51,800	28,630

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For the year ended 31 March 2011

16. Investment properties (Continued)

d) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group held for use in operating leases were HK$51,800,000 (2010: HK$28,630,000).

All the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2011 HK$'000	2010 HK$'000
Within 1 year	**457**	710
After 1 year but within 5 years	**—**	507
	457	1,217

e) Pledge of investment properties

At 31 March 2011, the investment properties held in Hong Kong with a total carrying amount of HK$25,800,000 (2010: HK$20,000,000) were pledged as collateral for the Group's bank loans, details of which are set out in note 27.

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For the year ended 31 March 2011

17. Operating concessions

During the year, the Group completed the acquisition of 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd. ("Fanhe Water"). Fanhe (Hulu Island) Water Investment Co., Ltd. ("Fanhe Hulu"), a wholly-owned subsidiary of Fanhe Water entered into a service concession arrangement with Hulu Island City Sewage Processing Co., Limited (the "Sewage Company"), a state-owned enterprise under the Municipal Government of Hulu Island City, on a Build-Operate-Transfer ("BOT") basis. The service concession agreement involves the Group as an operator to construct and upgrade sewage treatment plants for the arrangement on a BOT basis and operating and maintaining the sewage treatment plant at a specified level of serviceability on behalf of Sewage Company for a period of 30 years from April 2010. The Group will be paid for its services over the period of service concession arrangement at price stipulated through a pricing mechanism. The Group is entitled to use all the property, plant and equipment of the sewage plants whereas the Sewage Company as a grantor will control and regulate the scope of services. The Group must provide with the sewage plant, and retain the beneficial entitlement to any residual interest in the sewage treatment plants at the end of the concession period. The service concession arrangement is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the Sewage Company that set out, interalia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the concession period, and arrangement for arbitrating disputes.

As at 31 March 2011, the Group had a service concession arrangement and the major terms were set out below:

Name of operator:	Fanhe (Hulu Island) Water Investment Co., Limited
Name of grantor:	Hulu Island City Sewage Processing Co., Limited
Name of project:	Old Zone Waste Water Processing Project
Location:	Old Zone of Hulu Island City of Liaoning Province, the PRC
Service concession period:	30 years from April 2010
Processing capacity m^3/day:	70,000 tons

Pursuant to the service concession agreement entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the sewage treatment plant and related land, which are registered under the name of the subsidiary of the Group during the service concession period, but is required to surrender the property, plant and equipment to the grantor at a specified level of serviceability at the end of the service concession period.

Notes to the Financial Statements

For the year ended 31 March 2011

17. Operating concessions (Continued)

In accordance with the accounting policy for service concession arrangement as set out in note 2 (j), the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (Operating Concession). The carrying amount of the Group's operating concession is as follows:

The Group

	HK$'000
Cost	
At 1 April 2009, 31 March 2010 and 1 April 2010	—
Additions through	
— business combination (note 35)	72,688
— others	44,042
Exchange adjustments	3,353
At 31 March 2011	120,083
Accumulated amortisation	
At 1 April 2009, 31 March 2010 and 1 April 2010	—
Charge for the year	2,275
Exchange adjustments	49
At 31 March 2011	2,324
Carrying amount	
At 31 March 2011	117,759
At 31 March 2010	—

The fair value of the sewage treatment concession right of HK$72,688,000 acquired through business combination was independently valued by Cushman & Wakefield Valuation Advisory Services (HK) Limited ("Cushman"), an independent qualified professional valuer not connected to the Group, at the date of acquisition. Cushman, who has among their staff members of the Hong Kong Institute of Surveyors, has adopted an excess earnings method at a discount rate of 17.18% to value the operating concessions which is based on the financial projection over the period of service concession arrangement of 30 years approved by the management. The management estimated the financial projection based on their experience. Growth rates used in the cash flow projections for the forecasting 1st year, 2nd year and 3rd year are 60%, 5% and 4% respectively. From the 4th year, the Group adopted a constant growth rate of 3% for every 2 years.

Amortisation has been provided on a straight-line basis over the period of the operating concessions granted to the Group of 30 years from April 2010 to March 2040. The amortization charge for the year is included in "cost of sales" in the consolidated income statement.

At 31 March 2011, the sewage treatment concession right of the Group in a carrying amount of approximately HK$117,759,000 was pledged to secure certain bank loans granted to the Group (note 27).

18. Intangible assets

The Group

	Club membership HK$'000 (note ii)	Patent HK$'000 (note i)	Total HK$'000
Cost			
At 1 April 2009, 31 March 2010 and 1 April 2010	—	—	—
Additions through acquisition of subsidiaries (note 36)	—	60,399	60,399
Addition	1,849	—	1,849
Exchange adjustments	—	906	906
At 31 March 2011	1,849	61,305	63,154
Accumulated amortization			
At 1 April 2009, 31 March 2010 and 1 April 2010	—	—	—
Charge for the year	—	1,934	1,934
Exchange adjustments	—	41	41
At 31 March 2011	—	1,975	1,975
Carrying amount			
At 31 March 2011	1,849	59,330	61,179
At 31 March 2010	—	—	—

Note:

(i) The patent has finite life and will expire on 16 October 2018. The patent was valued by Cushman, with a fair value of RMB51,460,000 (equivalent to HK$60,399,000) at the date of acquisition. Cushman adopted a premium profit method at a discount rate of 17.97% to value the patent which is based on a financial projection cover a period of approximately 8 years to 16 October 2018 approved by management. The management estimated the financial projection based on their experience and the average annual growth rate for the forecast period is 26%.

Amortisation has been provided on a straight-line basis over the remaining useful life of approximately 8 years from the date of acquisition to 16 October 2018. The amortisation charge for the year is included in "Cost of sales" in the consolidated income statement.

(ii) The Group holds a membership in Sand River Golf Club with a useful life of 23 years. The club membership is measured at cost less amortisation and impairment losses. Amortisation is provided on a straight line basis over the useful life of 23 years.

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19. Goodwill

The Group

	HK$'000
Cost	
At 1 April 2009, 31 March 2010 and 1 April 2010	332
Write-off upon dissolution of a subsidiary	(332)
At 31 March 2011	—
Accumulated impairment losses	
At 1 April 2009, 31 March 2010 and 1 April 2010	332
Reversal of impairment upon dissolution of a subsidiary	(332)
At 31 March 2011	—
Carrying amount	
At 31 March 2011	—
At 31 March 2010	—

Goodwill is allocated to the Group's cash-generating unit identified according to others segment.

On 22 April 2008, the Group acquired the remaining 25% equity interest from a minority shareholder for a consideration of HK$900,000. Goodwill was arising from the management's expectation of future profits of the subsidiary. The subsidiary was dissolved during the year ended 31 March 2011.

20. Interest in subsidiaries

	The Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**59,263**	59,263
Amounts due from subsidiaries	**174,533**	108,238
Less: impairment losses	**(8,778)**	—
	225,018	167,501

Notes:

a) The amounts due from subsidiaries are unsecured, interest-free and not expected to be recovered within one year. In the opinion of the directors, the amounts due from subsidiaries are considered as quasi-equity investments in the subsidiaries.

b) During the year ended 31 March 2011, the Company recognized an impairment loss of HK$8,778,000 on the amount due from a subsidiary as the subsidiary was operating at a loss (because of the net unrealised loss on trading securities carried at fair value) and in a net liability position. The directors are of the opinion that the recoverable amount of the balance due was less than its carrying amount.

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20. Interest in subsidiaries (Continued)

The following list only contains the particulars of the subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and fully paid share capital	Proportion of ownership interest		Principal activity
			Direct	Indirect	
Yardway Development Limited	British Virgin Islands ("BVI")/Hong Kong	US$10,000	100%	–	Investment holding
Yardway Limited	Hong Kong	HK$10,110 (divided into 10 ordinary shares and 10,100 non-voting deferred shares of HK$1 each *(note (i))*	–	100%	Trading of vehicles, machinery and parts and provision of engineering services
Yardway Motors Limited	Hong Kong	HK$10,000	–	100%	Trading of motor vehicles and spare parts and provision of services
Yardway Logistics Equipment (Zhuhai) Company Limited ("Yardway Zhuhai") 啟帆物流設備(珠海)有限公司	Mainland China *(note (ii))*	Registered capital of HK$10,000,000	–	100%	Trading of transportation and logistics related equipment
Yardway Advance Power Equipment (Beijing) Co Ltd ("Yardway Beijing") 啟帆未來動力設備(北京)有限公司	Mainland China *(note (ii))*	Registered capital of RMB3,000,000	–	100%	Trading of spare parts and provision of services
Yardway Dredging Equipment Limited	Hong Kong	HK$10,000	–	100%	Trading and manufacturing of dredging equipment, components and provision for services in Hong Kong
Well Nation Holdings Limited	BVI	US$1	100%	–	Investment holding
Winsum Investment Limited	BVI	US$1	100%	–	Investment holding
Beijing Jingrui Kemai Water Purification Technology Company Limited ("Jingrui Kemai") 北京精瑞科邁淨水技術有限公司	Mainland China *(note (iii))*	Registered capital of RMB10,000,000	–	100%	Development of water purification technology
Fanhe (Hulu Island) Water Investment Company Limited ("Fanhe Hulu Island") 凡和(葫蘆島)水務投資有限公司	Mainland China *(note (iv))*	Registered capital of RMB50,000,000	–	100%	Provision of sewage treatment and construction services

Notes to the Financial Statements

For the year ended 31 March 2011

20. Interest in subsidiaries (Continued)

Notes:

i) In accordance with the articles of association of Yardway Limited, holders of non-voting deferred shares are entitled to share profit of Yardway Limited when the profit exceeds HK$1,000,000 million in any financial year. On a return of assets on winding up or otherwise the assets of Yardway Limited to be returned shall be distributed as regards the first HK$5,000,000,000 thereof among the holders of ordinary shares and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares and the other half thereof to and among the holders of the ordinary shares.

ii) Yardway Zhuhai and Yardway Beijing are wholly-foreign-owned enterprises.

iii) Jingrui Kemai, a wholly-foreign owned enterprise, was acquired by the Group on 5 January 2011 with a registered and fully-paid up capital of RMB10,000,000 (equivalent to HK$11,737,000).

iv) Fanhe Hulu Island, a domestic private enterprise acquired by the Group on 27 April 2010 with a registered capital of RMB2,000,000 (equivalent to HK$2,275,000). The registered capital was increased to RMB50,000,000 (equivalent to HK$59,395,000) on 16 February 2011.

21. Interest in jointly controlled entities

	The Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets	**—**	—

Details of the Group's interest in the jointly controlled entities are as follows:

Name of joint venture	Form of entity	Place of incorporation/ establishment and operation	Particulars of issued and fully paid share capital	Proportion of ownership interest held by the Group Direct	Indirect	Principal activities
Beijing Capital Environment Construction Company Limited	Incorporated	Cayman Islands	2 ordinary share of HK$1 each	—	50%	Investment holding
Beijing Capital Environment Construction (BVI) Company Limited	Incorporated	BVI	1 ordinary share of USD 1 each	—	50%	Investment holding
Beijing Capital Environment Construction (Hong Kong) Company Limited	Incorporated	Hong Kong	1 ordinary share of HK$1 each	—	50%	Inactive

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For the year ended 31 March 2011

21. Interest in jointly controlled entities (Continued)

The summarised financial information in respect of the Group's effective interest in the jointly controlled entities was as follows:

	The Group
	2011
	HK$'000
(i) Operating results	
Income	**–**
Expenses	**(50)**
Loss for the year*	**(50)**
(ii) Statement of financial position	
Non-current assets	**–**
Current assets	**–**
Current liabilities	**(50)**
Net liabilities*	**(50)**

* The Group's share of losses of HK$50,000 exceeded the Group's interest of HK$1 in the jointly controlled entities, therefore, the Group's interest in jointly controlled entities was reduced to nil and recognition of further losses was discontinued.

22. Trading securities

	The Group	
	2011	2010
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**16,888**	32,203

The fair value of listed equity securities is based on their quoted prices at the end of the reporting period.

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For the year ended 31 March 2011

23. Inventories

	The Group	
	2011	2010
	HK$'000	HK$'000
Raw material	**77**	—
Work-in-progress	**499**	16
Finished goods	**11,048**	8,180
	11,624	8,196

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount of inventories sold	**78,970**	94,882
(Reversal of write-down)/write-down of inventories	**(1,859)**	1,792
	77,111	96,674

During the year, the Group sold inventories which had been written down in prior years. Therefore, the write-down of HK$1,859,000 made in prior years was reversed in current year.

24. Trade and other receivables

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade receivables	*(a)*	**39,020**	29,739	**—**	—
Retentions receivable	*(b)*	**10,222**	12,582	**—**	—
Other receivables		**6,261**	10,393	**—**	—
Amount due from a jointly controlled entity		**50**	—	**—**	—
Loans and receivables		**55,553**	52,714	**—**	—
Prepayments and deposits		**15,359**	3,805	**941**	1,366
		70,912	56,519	**941**	1,366

All of the trade and other receivables apart from certain retentions receivable are expected to be recovered within one year.

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

24. Trade and other receivables (Continued)

a) Trade receivables

i) Ageing analysis

Trade receivables are net of allowance for bad and doubtful debts of HK$9,320,000 (2010: HK$2,612,000) with the following ageing analysis as at the end of the reporting period:

	The Group	
	2011	2010
	HK$'000	HK$'000
Current	**8,783**	20,616
1 to 3 months past due	**7,185**	6,112
More than 3 months but less than 12 months past due	**22,864**	2,952
More than 12 months past due	**188**	59
	39,020	29,739

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing. Further detail of the Group's credit policy is set out in note 34(a).

ii) Impairment of trade receivables

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

Movements in the allowance for doubtful debts

	The Group	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**2,612**	3,074
Reversal of impairment	**—**	(267)
Impairment loss recognised *(note)*	**6,685**	443
Uncollectible amount written off	**(87)**	(648)
Exchange difference	**110**	10
At end of the year	**9,320**	2,612

Note:

As at 31 March 2011, trade receivables of the Group amounting to HK$9,320,000 (2010: HK$2,612,000) were individually determined to be impaired and impairment loss of the full amount had been recognised. These individually impaired receivables were overdue for more than one year at the end of the reporting period, the Group had made several requests for repayment, however, up to the date of approval of these financial statements, the debtors did not come up with a repayment schedule. Therefore, an impairment loss of the full amounts was recognised.

Notes to the Financial Statements

For the year ended 31 March 2011

24. Trade and other receivables (Continued)

a) Trade receivables (Continued)

iii) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**8,783**	20,616
1 to 3 months past due	**7,185**	6,112
3 to 12 months past due	**22,864**	2,952
More than 1 year past due	**188**	59
	39,020	29,739

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

b) Retentions receivable

Retentions receivable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts. The amount of retentions expected to be recovered after more than one year is HK$5,443,000 (2010: HK$9,634,000).

During the year ended 31 March 2011, an impairment loss of HK$6,362,000 (2010: HK$Nil) was recognised against the retentions receivable. It arose due to such amounts were overdue for more than one year at the end of the reporting period, the Group had made several requests for repayment, however, up to the date of approval of these financial statements, the debtors did not come up with a repayment schedule. Therefore, an impairment loss of the full amounts was recognised.

25. Pledged bank deposits and cash and cash equivalents

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged bank deposits	**202**	381	**—**	—
Cash and bank balances	**104,965**	102,079	**5,563**	2,672
	105,167	102,460	**5,563**	2,672
Less: Pledged bank deposits	**(202)**	(381)	**—**	—
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**104,965**	102,079	**5,563**	2,672

At 31 March 2011, the bank deposits and cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$77,743,000 (2010: HK$7,246,000). The RMB is not freely convertible into other currencies. However, under mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The pledged bank deposits of HK$202,000 (2010: HK$381,000) carry interest at market rate of 0.36% (2010: 0.36%) per annum. Bank balances carry interest at market rates which range from 0.0001% to 0.36% (2010: 0.0001% to 0.36%) per annum. The bank balances and bank deposits are deposited with creditworthy banks with no recent history of default.

26. Trade and other payables

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**52,201**	34,648	**—**	—
Other payables and accruals	**24,775**	13,156	**1,585**	870
Amount due to a subsidiary	**—**	—	**786**	—
Amount due to a related company	**711**	374	**—**	—
Financial liabilities measured at amortised cost	**77,687**	48,178	**2,371**	870
Sales deposits received	**5,750**	5,501	**—**	—
	83,437	53,679	**2,371**	870

All trade and other payables apart from certain retentions payable are expected to be settled.

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26. Trade and other payables (Continued)

The amount due to a related company and a subsidiary are unsecured, interest free and repayable on demand.

The following is an age analysis of the trade and bills payables as at the end of the reporting period.

	The Group	
	2011	2010
	HK$'000	HK$'000
Due within 1 month or on demand	**45,637**	21,710
Due after 1 month but within 3 months	**588**	2,831
Due after 3 months but within 6 months	**—**	7
Due after 6 months but within 1 year	**—**	3,917
Due after 1 year	**—**	349
	46,225	28,814
Bills payable	**—**	2,207
Retentions payable	**5,976**	3,627
	52,201	34,648

Retentions payable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts. All retentions payable are expected to be settled within one year.

27. Bank loans and overdrafts

	The Group		
	2011	2010	2009
	HK$'000	HK$'000	HK$'000
Bank loans			
— secured	**45,499**	3,883	4,209
— unsecured	**—**	—	1,744
	45,499	3,883	5,953
Bank overdrafts — secured	**—**	—	161
	45,499	3,883	6,114

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27. Bank loans and overdrafts (Continued)

The analysis of the carrying amount of bank loans and overdraft are as follows:

	The Group		
	31/3/2011	31/3/2010	1/4/2009
	HK$'000	HK$'000	HK$'000
Current liabilities			
Portion of bank loans and overdrafts due for repayment within one year	**12,780**	333	2,231
Portion of bank loans and overdrafts due for repayment after one year which contain a repayment on demand clause *(note i)*	**9,395**	3,550	3,883
	22,175	3,883	6,114
Non-current liabilities			
Bank loans	**23,324**	—	—
Total	**45,499**	3,883	6,114

At 31 March 2011, total bank loans and overdrafts of HK$45,499,000 were due for repayment as follows:

	The Group		
	31/3/2011	31/3/2010	1/4/2009
	HK$'000	HK$'000	HK$'000
Portion of bank loans and overdrafts due for repayment within one year	**12,780**	333	2,231
Bank loans due for repayment after one year *(note ii)*:			
After 1 year but within 2 years	**12,791**	342	333
After 2 years but within 5 years	**12,248**	1,078	1,052
After 5 years	**7,680**	2,130	2,498
	32,719	3,550	3,883
	45,499	3,883	6,114

Note:

i) None of the portion of bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

ii) The amounts due are based on scheduled repayment dates as stipulated in the respective loan agreements.

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27. Bank loans and overdrafts (Continued)

The bank loans and overdrafts are carried at amortised cost. None of the non-current bank loans is expected to be settled within one year.

The effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are ranged from 2.25% to 7.63% (2010: 2.5%) per annum.

As at 31 March 2011, the secured bank loans were secured by (i) mortgages over the Group's investment properties with an aggregate carrying value of HK$25,800,000 (2010: HK$20,000,000); (ii) pledge over bank deposits of HK$202,000 (2010: HK$381,000); (iii) pledge over the operating concession in an aggregate carrying amount of approximately HK$117,759,000 (2010: Nil) and (iv) corporate guarantees given by the Company. The total banking facilities granted to the Group amounted to HK$75,450,000 (2010: HK$32,383,000) of which HK$45,499,000 were utilized as at 31 March 2011 (2010: HK$3,883,000).

28. Deferred taxation

a) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year were as follows:

	Revaluation of investment properties	**Depreciation allowances in excess of related depreciation**	**Revaluation of other properties**	**Tax losses**	**Operating concession**	**Intangible assets**	**Other**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax arising from:								
At 1 April 2009	–	113	2,818	(666)	–	–	(57)	2,208
Exchange adjustments	–	–	10	–	–	–	–	10
Charged/(credited) to profit or loss	247	(44)	–	(37)	–	–	57	223
Charged to reserve	–	–	858	–	–	–	–	858
At 31 March 2010	247	69	3,686	(703)	–	–	–	3,299
At 1 April 2010	247	69	3,686	(703)	–	–	–	3,299
Exchange adjustments	42	(31)	50	–	826	184	–	1,071
Acquisition of subsidiaries	–	–	–	–	–	13,870	–	13,870
Business combination	–	–	–	–	18,172	–	–	18,172
Charged/(credited) to profit or loss	3,315	(1,595)	-	(1,122)	(569)	(444)	–	(415)
Charged to reserve	–	–	257	–	–	–	–	257
At 31 March 2011	3,604	(1,557)	3,993	(1,825)	18,429	13,610	–	36,254

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28. Deferred taxation (Continued)

a) Deferred tax assets and liabilities recognised: (Continued)

	The Group	
	2011	2010
	HK$'000	HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**–**	–
Net deferred tax liabilities recognised on the consolidated statement of financial position	**36,254**	3,299
	36,254	3,299

b) Deferred tax assets not recognised:

At the end of the reporting period, the Group has tax losses of HK$60,656,000 (2010: HK$31,921,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose. The tax losses do not expire under the current tax legislation. The Group has tax losses of HK$5,543,000 (2010: HK$1,074,000) available for offset against future profits that may be carried forward for five years from 2009 for PRC enterprise income tax purpose.

29. Provision for warranty

	The Group	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**2,403**	692
Additional provisions made	**269**	1,731
Provision utilised	**(693)**	(20)
At end of the year	**1,979**	2,403
Less: Amount included under "current liabilities"	**(1,465)**	(1,874)
Non-current liabilities	**514**	529

The Group will rectify any product defects arising within one to three years of the delivery of railway and metro maintenance equipments and vehicles to customers. The provision is therefore made for the best estimate of the expected settlement. The amount of provision is estimated by directors who take into account the Group's recent claim experience and is only made where a warranty claim is probable from historical warranty date associated with similar products.

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30. Financial guarantee liability

	The Company	
	2011	2010
	HK$'000	HK$'000
Financial guarantee contracts		
Carrying amount		
At beginning of the year	**55**	1,260
Fair value of financial guarantee contracts issued	**208**	673
Amortisation for the year	**(246)**	(1,878)
At end of the year	**17**	55

Based on the valuation performed by an independent firm of valuer, the directors considered that the fair value of the financial guarantee contracts issued was approximately HK$208,000 (2010: HK$673,000) at the date of issuance of the financial guarantee contracts. The Company recognised financial guarantee income of HK$246,000 (2010: HK$1,878,000) during the year.

As at 31 March 2011, the Company has undertaken to guarantee certain banking facilities to the extent of HK$28,075,000 (2010: HK$21,958,000) granted to certain subsidiaries of which HK$14,206,000 (2010: HK$10,493,000) have been utilised at the end of the reporting period. The maximum guarantee amount borne by the Company was HK$28,075,000 (2010: HK$21,958,000). The directors do not consider if probable that a claim will be made against the Company.

31. Equity settled share-based transactions

2002 share option scheme

The Company had a share option scheme which was adopted on 28 March 2002, whereby the directors of the Company are authorised, at their discretion, to invite eligible participants, to take up options at a nominal consideration to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the directors as incentive or rewards for their contribution to the Group. The total number of shares which may be issued upon exercise of all options to be granted under the scheme shall not in aggregate exceed 30% to the total number of shares of the Company from time to time.

31. Equity settled share-based transactions (Continued)

2002 share option scheme (Continued)

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first instalment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company. On 20 September 2007, share offer was made to all the holders of the shares, 10,424,000 shares under the share offer were accepted by the offer or parties. Taking into account the 10,424,000 shares accepted under the share offer and the 133,732,000 shares already held by the offer or parties, the offer parties in aggregate held 144,156,000 shares, represent 51.5% of the issued share capital of the Company. Accordingly, the condition of the offers has been fulfilled and the offers have become unconditional. The share offer was closed on 25 October 2007.

According to the share option scheme adopted on 28 March 2002, as the share offer made on 20 September 2007 to all the holders of the shares became unconditional, the option holders were, notwithstanding any other terms on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent at any time thereafter and up to the close of the offer, on 25 October 2007.

2002 share option scheme was terminated pursuant to a special resolution passed at the extraordinary general meeting held on 10 September 2010.

2010 share option scheme

On 10 September 2010, the Company adopted a new share option scheme and which replaced 2002 share option scheme.

The new share option scheme was adopted whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, shareholders, consultant and potential business parties to take up options for a consideration of HK$1 to subscribe for shares of the Company. The exercise period of the share options granted is determined by the directors of the Company, but no later than 10 years from the date of the offer. Each option gives the holder the right to subscribe for one ordinary share in the Company.

At 31 March 2011, the number of shares in respect of which options had been granted and remained outstanding under 2010 share option scheme was 64,500,000, representing 2.65% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under 2010 share option scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

A consideration of HK$1 is payable on the grant of an option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Notes to the Financial Statements

For the year ended 31 March 2011

31. Equity settled share-based transactions (Continued)

a) The terms and conditions of the grants are as follows:

	Option type	Number of instruments	Vesting conditions	Contractual life of options	Fair Value at grant date HK$
Options granted to directors:					
— on 17 September 2010	2010A	6,800,000	— up to 25% immediately from the date of grant	10 years	0.282
	2010B	6,800,000	— up to 50% immediately after 1 year from the date of grant		0.291
	2010C	6,800,000	— up to 75% immediately after 2 years from the date of grant		0.309
	2010D	6,800,000	— up to 100% immediately after 3 years from the date of grant		0.325
		27,200,000			
Options granted to employees:					
— on 17 September 2010	2010E	2,875,000	— up to 25% immediately from the date of grant	10 years	0.243
	2010F	2,875,000	— up to 50% immediately after 1 year from the date of grant		0.263
	2010G	2,875,000	— up to 75% immediately after 2 years from the date of grant		0.289
	2010H	2,875,000	— up to 100% immediately after 3 years from the date of grant		0.311
		11,500,000			
Options granted to consultants and other qualified participants:					
— on 17 September 2010	2010E	6,450,000	— up to 25% immediately after 1 year from the date of grant	10 years	0.243
	2010F	6,450,000	— up to 50% immediately after 2 years from the date of grant		0.263
	2010G	6,450,000	— up to 75% immediately after 3 years from the date of grant		0.289
	2010H	6,450,000	— up to 100% immediately after 4 years from the date of grant		0.311
		25,800,000			
Total share options granted		64,500,000			

31. Equity settled share-based transactions (Continued)

b) The number and weighted average exercise prices of share options are as follows:

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at the beginning of the year	**—**	**—**	—	—
Granted during the year	**HK$0.46**	**64,500,000**	—	—
Outstanding at the end of the year	**HK$0.46**	**64,500,000**	—	—
Exercisable at the end of the year	**HK$0.46**	**16,125,000**	—	—

The options outstanding at 31 March 2011 had exercise price of HK$0.46 and a weighted average remaining contractual lives of 9.5 years.

c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Option type	
	2010A, 2010B, 2010C, 2010D	2010E, 2010F, 2010G, 2010H
Share price	HK$0.46	HK$0.46
Exercise price	HK$0.46	HK$0.46
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	80.71%	80.71%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	10 years	10 years
Expected dividends	0%	0%
Risk-free interest rate (based on Exchange Fund Notes)	2.204%	2.204%
Exercise multiple	2.8	2.2

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Notes to the Financial Statements

For the year ended 31 March 2011

31. Equity settled share-based transactions (Continued)

c) Fair value of share options and assumptions (Continued)

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

32. Share capital

a) Authorised and issued share capital

	Number of ordinary shares of HK$0.05 per share '000	Number of ordinary shares of HK$0.025 per share '000	HK$'000
Authorised			
At 1 April 2009	4,000,000	—	200,000
Share sub-division *(note (i))*	(4,000,000)	8,000,000	—
At 31 March 2010 and 1 April 2010 and at 31 March 2011	—	8,000,000	200,000
Issued and fully paid			
At 1 April 2009	1,116,496	—	55,825
Effect of share sub-division *(note (i))*	(1,116,496)	2,232,992	—
At 31 March 2010 and 1 April 2010	—	2,232,992	55,825
Consideration shares issued for business combination *(note (ii))*	—	37,500	937
Issue of new shares *(note (iii))*	—	143,022	3,576
Consideration shares issued for acquisition of subsidiaries *(note (iv))*	—	17,467	437
At 31 March 2011	—	2,430,981	60,775

Notes:

(i) Pursuant to the approval in the extraordinary general meeting held on 1 March 2010, the issued and unissued shares of HK$0.05 each be subdivided into two subdivided shares of HK$0.025 each. Upon the subdivision becoming effective on 2 March 2010, the authorised share capital of the Company of HK$200,000,000 was divided into 8,000,000,000 subdivided shares, of which, 2,232,992,000 subdivided shares were issued and fully paid.

(ii) On 29 September 2010, the Company allotted and issued 37,500,000 ordinary consideration shares with par value of HK$0.025 each as part of the consideration for the acquisition of Fanhe Water Group, details of which are set out in note 35. The premium of HK$14,625,000 upon issuance of the ordinary consideration shares was credited to the share premium amount.

(iii) On 7 December 2010, the Company entered in a subscription agreement with 3 subscribers, an aggregate 143,021,914 new shares having a par value of HK$0.025 in the share capital of the Company at a subscription price of HK$0.4335 were issued for cash consideration. The premium of HK$58,424,000 upon issuance of the ordinary shares was credited to the share premium account.

(iv) On 5 January 2011, the Company allotted and issued 17,467,066 ordinary consideration shares with par value of HK$0.025 each as part of the consideration for the acquisition of Power Score Group, details of which are set out in note 36. The premium of HK$7,249,000 upon issuance of the ordinary consideration shares was credited to the share premium account.

Notes to the Financial Statements

For the year ended 31 March 2011

33. Reserves

a) The Group

	Note	Share premium HK$'000	Tranche II consideration shares HK$'000	Shares option reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Revaluation reserve-land and buildings HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000
		Attributable to owners of the Company								
At 1 April 2009		58,833	–	–	(180)	2,481	11,171	2,294	57,485	132,084
Profit for the year		–	–	–	–	–	–	–	3,740	3,740
Other comprehensive income:										
Exchange differences on translation of the financial statements of PRC subsidiaries		–	–	–	–	260	–	–	–	260
Revaluation surplus, net of deferred tax		–	–	–	–	–	3,195	–	–	3,195
		–	–	–	–	260	3,195	–	–	3,455
Total comprehensive income		–	–	–	–	260	3,195	–	3,740	7,195
Transactions with owners										
Transfer to other reserves		–	–	–	–	–	–	276	(276)	–
At 31 March 2010		58,833	–	–	(180)	2,741	14,366	2,570	60,949	139,279
At 1 April 2010		58,833	–	–	(180)	2,741	14,366	2,570	60,949	139,279
Loss for the year		–	–	–	–	–	–	–	(43,677)	(43,677)
Other comprehensive income:										
Exchange differences on translation of the financial statements of PRC subsidiaries		–	–	–	–	6,107	–	–	–	6,107
Realisation of exchange differences transferred to profit or loss upon disposal of a subsidiary	*37*	–	–	–	–	21	–	–	–	21
Revaluation surplus, net of deferred tax		–	–	–	–	–	5,532	–	–	5,532
		–	–	–	–	6,128	5,532	–	–	11,660
Total comprehensive income/(loss)		–	–	–	–	6,128	5,532	–	(43,677)	(32,017)
Transactions with owners										
Issue of new shares	*32(a)(iii)*	58,424	–	–	–	–	–	–	–	58,424
Share issue expenses		(1,494)	–	–	–	–	–	–	–	(1,494)
Shares issued for business combination	*32(a)(ii)*	14,625	–	–	–	–	–	–	–	14,625
Share issued for acquisition of subsidiaries	*32(a)(iv)*	7,249	–	–	–	–	–	–	–	7,249
Deemed contribution	*36*	–	–	–	–	–	–	6,785	–	6,785
Consideration shares to be issued for acquisition of subsidiaries	*33(b)*	–	27,274	–	–	–	–	–	–	27,274
Equity-settled share-based transactions		–	–	8,752	–	–	–	–	–	8,752
Transfer to other reserves		–	–	–	–	–	–	1,469	(1,469)	–
Total transactions with owners		78,804	27,274	8,752	–	–	–	8,254	(1,469)	121,615
At 31 March 2011		137,637	27,274	8,752	(180)	8,869	19,898	10,824	15,803	228,877

Notes to the Financial Statements

For the year ended 31 March 2011

33. Reserves (Continued)

b) Tranche II Consideration Shares to be issued

The Tranche II Consideration Shares to be issued by the Company for the acquisition of Power Score Group (note 36) with the par value of HK$0.025 each. The initial issue price is at HK$0.668 per ordinary share (subject to adjustment). The Tranche II Consideration Shares at all time rank equally among themselves and pari passu with 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 Tranche II Consideration Shares:

Under the sale and purchase agreement, the Company is required to issue to the vendors up to 69,868,263 ordinary shares calculated according to the audited profits achieved by Beijing Jingrui Kemai Water Purification Technology Co Ltd ("Jingrui"), a subsidiary of Power Score, for the year ending 31 December 2011 ("2011 audited profits") pursuant to the following formula:

N = [ATP] X [fixed P/E ratio] ÷ issued price

where:	N	=	number of Tranche II Consideration Shares to be allotted and issued to the vendors (or their respective nominees) in the proportion of 55% and 45% between the First Vendor and the Second Vendor
	ATP	=	2011 audited profits
	fixed P/E ratio	=	8 (which is the price-earnings multiple agreed by the vendors and the Winsum, for the purpose of such adjustment formula for the consideration)
	issue price	=	HK$0.668 per Tranche 2 Consideration Share

If however ATP is less than zero (i.e. Jingrui suffers a loss for the financial year ending 31 December 2011), N shall be deemed to be zero. Where N is greater than 69,868,263, N shall be deemed to be 69,868,263.

The fair value of Tranche II Consideration Shares to be issued of HK$27,274,000 was valued by Cushman, based on income approach and the probability of achieving the required benchmark, using a present value factor of 1.24.

33. Reserves (Continued)

c) The Company

	Note	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2009		58,833	—	59,063	6,315	124,211
Total comprehensive loss						
Loss for the year		—	—	—	(8,398)	(8,398)
At 31 March 2010		58,833	—	59,063	(2,083)	115,813
At 1 April 2010		58,833	—	59,063	(2,083)	115,813
Total comprehensive loss						
Loss for the year		—	—	—	(34,067)	(34,067)
Transactions with owners						
Issue of new shares	*32(a)(iii)*	58,424	—	—	—	58,424
Share issue expenses		(1,494)	—	—	—	(1,494)
Shares issued for business combination	*32(a)(ii)*	14,625	—	—	—	14,625
Shares issued for acquisition of subsidiaries	*32(a)(iv)*	7,249	—	—	—	7,249
Equity-settled share-based transactions		—	8,752	—	—	8,752
Total transactions with owners		78,804	8,752	—	—	87,556
At 31 March 2011		137,637	8,752	59,063	(36,150)	169,302

Notes to the Financial Statements

For the year ended 31 March 2011

33. Reserves (Continued)

Nature and purpose of reserves

(i) Share premium and contributed surplus

Under the Companies Law (Revised) of the Cayman Islands, the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The contributed surplus of the Company arose from the difference between the consolidated net assets of the Group's subsidiaries acquired and the nominal value of the Company's ordinary shares issued pursuant to the Group reorganisation in 2002.

(ii) Exchange reserve

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

(iii) Share option reserve

The share option reserve comprises the portion of the grant date fair value of unexercised share options granted to directors, employees, consultants and other qualified participants of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(u)(ii).

(iv) Other reserves

The other reserves comprise:

(a) Subsidiaries of the Group in mainland China, which are wholly foreign-owned enterprises, follow the accounting principles and relevant financial regulations of mainland China applicable to wholly foreign-owned enterprises ("PRC GAAP — WFOE"), in the preparation of their accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP — WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital; and

(b) the excess of fair value of identifiable assets and liabilities of Power Score Group (note 36) acquired over the fair value of consideration transferred of HK$6,785,000 accounted for as a deemed contribution from the owners.

(v) Revaluation reserve

The revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for leasehold land and buildings in note 2(i). The revaluation reserve is not distributable to shareholders.

33. Reserves (Continued)

Nature and purpose of reserves (Continued)

(vi) *Distributability of reserves*

At 31 March 2011, the aggregate amount of reserves available for distribution to owners of the Company was HK$160,550,000 (2010: HK$115,813,000).

(vii) *Capital risk management*

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt which includes bank borrowings less bank deposits and cash. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During the year ended 31 March 2011, the Group's strategy, which was unchanged from 2010, was to maintain the net debt-to-adjusted capital ratio as low as feasible. The adjusted net debt-to-capital ratio at 31 March 2011 and 2010 was as follows:

		The Group	
	Note	**2011** **HK$'000**	2010 HK$'000
Current liabilities:			
Bank loans and overdrafts	27	**22,175**	3,883
Non-current liabilities:			
Bank loans and overdrafts	27	**23,324**	—
Total debt		**45,499**	3,883
Less: Cash and cash equivalents	25	**(104,965)**	(102,079)
Pledged bank deposits	25	**(202)**	(381)
Adjusted net debt		**(59,668)**	(98,577)
Total equity		**289,652**	195,104
Adjusted capital		**289,652**	195,104
Adjusted net debt-to-capital ratio		**N/A**	N/A

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt. As at 31 March 2011 and 2010, the Group had a net cash position.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

For the year ended 31 March 2011

34. Financial risk management and fair values

The Group has exposure to credit risk, liquidity risk, currency risk, interest rate risk and equity price risk from its use of financial instruments. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the trade and other receivables and deposits with financial institutions. Management has a credit policy in a place and the exposures to these credit risks are monitored on an ongoing basis.

i) Trade and other receivables

The management has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due depend on contract terms or within 2 months from the date of billing. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has a certain concentration of credit risk as 52% (2010: 25%) and 88% (2010: 71%) of the total trade related receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, in the consolidated statement of financial position after deducting any impairment allowance. Except for financial guarantees given by the Company as set out in note 30, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the Company's statement of financial position is disclosed in note 30.

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

ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 March 2011, the Group has certain concentration of credit risk as 61% (2010: 20%) of total cash and cash equivalents, bank deposits with original maturities over three months and financial assets designated at fair value were deposited at one financial institution in mainland China with high credit ratings.

Notes to the Financial Statements

For the year ended 31 March 2011

34. Financial risk management and fair values (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. At 31 March 2011, the Group has available un-utilized banking facilities of approximately HK$13,869,000 (2010: HK$11,465,000), details of which are disclosed in notes 40.

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

The Group

	2011					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	83,437	—	—	—	83,437	83,437
Bank loans and overdrafts	15,265	14,358	13,271	9,009	51,903	45,499
	98,702	14,358	13,271	9,009	135,340	128,936

	2010					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	53,679	—	—	—	53,679	53,679
Bank loans and overdrafts	427	427	1,280	2,276	4,410	3,883
	54,106	427	1,280	2,276	58,089	57,562

Notes to the Financial Statements

For the year ended 31 March 2011

34. Financial risk management and fair values (Continued)

b) Liquidity risk (Continued)

The Company

	2011					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	2,371	–	–	–	2,371	2,371

	2010					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	870	–	–	–	870	870

As at 31 March 2011, it was not probable that the counter parties to the financial guarantees will claim under the contracts. Consequently, the carrying amount of the financial guarantee contracts of HK$17,000 (2010: HK$55,000) has not been presented above.

c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Since Hong Kong dollars is pegged to United States dollars, these is no significant exposure expected on United States dollars transactions. The currencies giving rise to this risk are primarily Euro and Sterling.

The Group ensures that the exposure on recognised assets and liabilities arising from sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level, by buying or selling foreign currency at spot rate where necessary to address short-term imbalances.

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

34. Financial risk management and fair values (Continued)

c) Currency risk (Continued)

The Group

	Exposure to foreign currencies (expressed in HK$'000)					
	2011			2010		
	USD	EUR	GBP	USD	EUR	GBP
Trade and other receivables	32,213	1,854	73	5,036	3,010	188
Cash and cash equivalents	16,676	417	201	18,740	6,880	490
Trade and other payable	(45,519)	(1,605)	(2,747)	(18,104)	(9,335)	(3,628)
Overall net exposure	3,370	666	(2,473)	5,672	555	(2,950)

The Company

	Exposure to foreign currencies (expressed in HK$'000)					
	2011			2010		
	USD	EUR	GBP	USD	EUR	GBP
Cash and cash equivalents	335	—	—	334	—	—
Overall net exposure	335	—	—	334	—	—

An analysis of the estimated change in the Group's profit/(loss) after tax and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period is presented in the following table.

The Group

	2011			2010		
	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax HK$'000	Effect on equity HK$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax HK$'000	Effect on equity HK$'000
Euro	10%	(56)	56	10%	46	46
	(10%)	56	(56)	(10%)	(46)	(46)
GBP	10%	206	(206)	10%	(246)	(246)
	(10%)	(206)	206	(10%)	246	246

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For the year ended 31 March 2011

34. Financial risk management and fair values (Continued)

c) Currency risk (Continued)

The Group (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date while all other variables remains constant. The stated changes also represent management's assessment of a reasonably possible change in foreign exchange rates until the next annual end of the reporting period. The analysis is performed on the same basis for 2010.

d) Interest rate risk

The Group's interest rate risk arises primarily from the Group's interest-bearing borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

Interest rate profile

The following table indicates the interest rate profile of the Group's borrowings at the end of the reporting period:

The Group

	2011 Effective interest rate	**2011 HK$'000**	2010 Effective interest rate	2010 HK$'000
Variable rate borrowings				
Bank loans	**2.25% to 7.63%**	**45,499**	2.5%	3,883

34. Financial risk management and fair values (Continued)

d) Interest rate risk (Continued)

At 31 March 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss before tax by approximately HK$455,000.

At 31 March 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately HK$39,000.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the non-derivative financial liabilities in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2010.

e) Equity price risk

The Group is exposed to equity price risk arising from trading of listed securities classified as trading securities in the consolidated statement of financial position. The sensitivity analysis has been determined based on the exposure to equity price risk.

At 31 March 2011, if the quoted market prices of the trading securities had been 20% higher or lower while all other variables were held constant, the Group's net loss would decrease or increase by approximately HK$3,378,000 (2010: the Group's net profit would increase or decrease by approximately HK$6,441,000) as a result of changes in fair value of investments.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to equity price in existence at that date. It also assumed that the fair values of the Group's investment would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's securities investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variable, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2010.

Notes to the Financial Statements

For the year ended 31 March 2011

34. Financial risk management and fair values (Continued)

f) Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

34. Financial risk management and fair values (Continued)

f) Fair value measurements recognised in the statement of financial position (Continued)

	2011							
	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit or loss								
Trading securities	16,888	–	–	16,888	–	–	–	–
Financial liabilities at fair value through profit or loss								
Financial guarantee liabilities	–	–	–	–	–	–	(17)	(17)

	2010							
	The Group				The Company			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit or loss								
Trading securities	32,203	–	–	32,203	–	–	–	–
Financial liabilities at fair value through profit or loss								
Financial guarantee liabilities	–	–	–	–	–	–	(55)	(55)

There were no significant transfers between instruments in Level 1 and Level 2 during the year.

Notes to the Financial Statements

For the year ended 31 March 2011

34. Financial risk management and fair values (Continued)

f) Fair value measurements recognised in the statement of financial position (Continued)

Reconciliation of level 3 fair value measurements of financial liabilities

	The Company HK$'000
Financial guarantee contracts	
At 1 April 2009	1,260
Fair value of financial guarantee contracts issued	673
Amortisation for the year	(1,878)
At 31 March 2010 and 1 April 2010	55
Fair value of financial guarantee contracts issued	208
Amortisation for the year	(246)
At 31 March 2011	17

The fair values of cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables are not materially different from the carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of other financial assets, bank loans and overdrafts and finance lease liabilities approximate their fair values.

g) Estimation of fair values

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

i) Trading securities

Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

ii) Interest-bearing loans and borrowings and finance lease liabilities

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

iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

Notes to the Financial Statements

For the year ended 31 March 2011

35. Business combination

On 9 April 2010, the Rich Channel International Limited, a wholly-owned subsidiary of the Company entered into an agreement with Regal Vantage Limited ("RVL"), an independent third party to purchase 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd ("Fanhe Water") and its subsidiary ("Fanhe Water Group") and the shareholder loans due by Fanhe Water Group to the RVL at a total consideration of HK$55,000,000. The consideration shall be satisfied as to HK$40,000,000 in cash and as to HK$15,000,000 by allotment and issue of 37,500,000 ordinary shares of HK$0.025 each at an issue price of HK$0.4 per share. Fanhe Water is an investment holding company and its subsidiary, Fanhe (Hulu Island) Water Investment Co., Ltd. ("Fanhe Hulu"), is engaged in sewage treatment business in mainland China pursuant to a Build-Operate-Transfer contract ("BOT contract") dated 23 April 2010. According to the BOT contract, Fanhe Hulu was granted the concessionary operating rights for a period of 30 years from April 2010 in respect of a waste water processing project ("BOT Project") in Hulu Island City. In addition, Fanhe Hulu has to make commitment in the BOT Project which involves in expansion and upgrade the effluent standard of the Waste Water Processing Project. In return for constructing, operating and maintaining the BOT Project and providing sewage treatment services, Fanhe Hulu is entitled to receive sewage treatment fees from the Finance Bureau of Hulu Island City. The acquisition was completed on 27 April 2010.

At the expiration of the concession period, Fanhe Hulu is required to hand over all the assets belonging to the Waste Water Processing Project to Hulu Island City Sewage Processing Co., Ltd., the grantor of the BOT Project.

The Group is of the view that the acquisition of Fanhe Water Group will allow the Group to enter the sewage treatment business in the PRC. Since the population in the PRC is expected to grow, current water shortages may be exacerbated. To address water shortages and natural water resource pollution attributable to rapid growth in population, urbanization and industrialization in the PRC, the PRC government has been promulgating stricter environmental standards and invested significantly in water treatment projects to promote sustainable economic growth. The Group believes that the demand for water treatment infrastructure is expected to experience rapid growth.

Notes to the Financial Statements

For the year ended 31 March 2011

35. Business combination (Continued)

Details of the identifiable assets and liabilities acquired in respect of the acquisition of Fanhe Water Group are summarised below:

	HK$'000
Non-current assets	
Plant and equipment	191
Operating concessions	72,688
Current assets	
Other receivables	568
Cash and cash equivalents	4,411
Current liabilities	
Other payables and accruals	(2,953)
Non-current liabilities	
Deferred tax liabilities	(18,172)
	56,733

The receivables acquired in this transaction with a fair value of HK$568,000 had gross contractual amounts of HK$568,000. None of the receivables was expected to be uncollectible at the date of completion of the acquisition.

	HK$'000
Total consideration transferred:	
Cash consideration paid	40,000
Fair value of consideration shares issued	15,562
	55,562

The fair value of consideration shares issued was arrived at based on issue of 37,500,000 ordinary shares at published share price of HK$0.415 per share as at 27 April 2010.

Acquisition related costs amounting to HK$2,189,000 have been excluded from the consideration transferred and have been recognised as an expense in the year, within the "administrative expenses" line item in the consolidated income statement.

35. Business combination (Continued)

Net cash outflow arising on acquisition:

	HK$'000
Consideration paid	(40,000)
Cash and cash equivalents acquired	4,411
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(35,589)

Gain on a bargain purchase of subsidiaries

	HK$'000
Fair value of identifiable assets and liabilities of Fanhe Water Group acquired	56,733
Fair value of consideration transferred	(55,562)
Gain on a bargain purchase	1,171

Impact of acquisition on results of the Group

Fanhe Water Group acquired during the year contributed a profit after taxation of approximately HK$14,508,000 to the Group's result. Fanhe Water Group also generated revenue of approximately HK$60,769,000 during the year.

If the acquisition had been completed on 1 April 2010, the Group's total revenue and loss for the year ended 31 March 2011 would have been HK$158,709,000 and HK$44,032,000 respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 April 2010, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and loss of the Group had Fanhe Water Group been acquired at the beginning of the current year, the directors have calculated amoritisation of operating concessions acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

The gain on bargain purchase is mainly attributable to the following:

i) The immediate exit opportunity offered to the vendor; and

ii) The ability of the Group in negotiating the agreed terms of the transaction with vendor.

Notes to the Financial Statements

For the year ended 31 March 2011

36. Acquisition of assets and liabilities through acquisition of subsidiaries

On 9 November 2010, Winsum Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Xu Zhongping, who is a director and a substantial shareholder of the Company, and Mr. Lee Ho Fu Honcy, an independent third party, to acquire the 100% equity interest in Power Score Limited ("Power Score") and its subsidiaries ("Power Score Group") at an initial consideration of RMB10,000,000 (equivalent to HK$11,668,000) and an upward adjustment of up to HK$46,672,000 (calculated based on 69,868,263 ordinary shares at HK$0.668 per share) ("Tranche II Consideration Shares"). The initial consideration of RMB10,000,000 shall be satisfied by the allotment and issuance of 17,467,066 ordinary shares with par value of HK$0.025 each at an issue price of HK$0.668 per share ("Tranche I Consideration Shares") upon completion of the acquisition. Details of the Tranche II Consideration Shares are set out in note 33(b) to the financial statements. Power Score Group holds patents for water purification system. The acquisition was accounted for as an acquisition of assets and liabilities because except for holding of patents, Power Score Group has minimal business activities. The acquisition was completed on 5 January 2011.

The Group takes the view that the acquisition of Power Score Group allows the Group to use the patents, which enable the Group to have a solid technology foundation to capture the rapid growth of sewage treatment business in the PRC.

Consideration transferred

	HK$'000
Fair value of Tranche I Consideration Shares issued *(note i)*	7,686
Contingent consideration arrangement	
— Fair value of Tranche II Consideration Shares to be issued *(note 33(b))*	27,274
	34,960

Details of the identifiable assets and liabilities acquired

	HK$'000
Plant and equipment	286
Intangible assets	60,399
Trade and other receivables	3,434
Inventories	5,162
Cash and cash equivalents	5,138
Due to a related company	(1,688)
Trade payables	(354)
Due to former shareholders	(5,122)
Other payables and accruals	(11,640)
Deferred tax liabilities	(13,870)
	41,745

36. Acquisition of assets and liabilities through acquisition of subsidiaries (Continued)

Deemed contribution from owners

	HK$'000
Total consideration transferred	34,960
Identifiable assets and liabilities acquired	(41,745)
Deemed contribution from owners *(note ii)*	6,785

Net cash inflow arising on acquisition:

	HK$'000
Cash consideration paid	—
Cash and cash equivalents acquired	5,138
Net cash inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	5,138

Note:

(i) The fair value of Tranche I Consideration Shares represented 17,467,066 ordinary shares issued with a published share price of HK$0.44 per share as at 5 January 2011.

ii) Mr. Xu Zhongping held the majority equity interest in Power Score Group, therefore, the directors considered that the excess of fair value of identifiable assets and liabilities of Power Score Group acquired over the fair value of consideration transferred of HK$6,785,000 shall be accounted for as a deemed contribution from the owners and recorded as a transaction with owners and charged to the other reserve account.

Power Score Group did not generate any revenue but contributed a loss of approximately HK$1,895,000 to the Group's loss for the period between the date of acquisition to 31 March 2011.

Acquisition related costs amounting to HK$982,000 have been excluded from the consideration transferred and have been recognised as an expense in the year, within the "administrative expenses" line item in the consolidated income statement.

The receivables acquired in this transaction with a fair value of HK$3,434,000 had gross contractual amounts of HK$3,434,000. None of the receivables was expected to be uncollectible at the date of completion of the acquisition.

Notes to the Financial Statements

For the year ended 31 March 2011

36. Acquisition of assets and liabilities through acquisition of subsidiaries (Continued)

If the acquisition had been completed on 1 April 2010, the Group's total revenue and loss for the year ended 31 March 2011 would have been HK$158,709,000 and HK$48,405,000 respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 April 2010, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and loss of the Group had Power Score Group been acquired at the beginning of the current year, the directors have calculated amortisation of patents acquired on the basis of the fair values arising in the initial accounting for the acquisition of assets and liabilities through acquisition of subsidiaries rather than the carrying amounts recognised in the pre-acquisition financial statements.

37. Disposal of a subsidiary

On 24 May 2010, the Group completed the disposal of the entire 100% equity interest in 北京華佰利節能技術開發有限公司, an inactive subsidiary established in the PRC, for a cash consideration of HK$2,500,000. There is no gain or loss arising from the disposal.

Details of the net assets disposed of in respect of 北京華佰利節能技術開發有限公司 are summarised below:

	HK$'000
Net assets disposed of	
Bank balances and cash	2,479
Release of exchange reserve upon disposal	21
	2,500
Cash consideration received	
Cash consideration received	2,500
Net cash inflow arising on disposal of a subsidiary	
Cash consideration received	2,500
Bank balances and cash disposed of	(2,479)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	21

Notes to the Financial Statements

For the year ended 31 March 2011

38. Material related party transactions

The Group has entered into the following material related party transactions:

a) Key management personnel remuneration

Remuneration for key management personnel including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2011 HK$'000	2010 HK$'000
Short-term employee benefits	10,364	5,057
Retirement scheme contributions	—	9
	10,364	5,066

Total remuneration is included in "staff costs" (see note 6(b)).

b) Other related party transactions

(i) On 9 November 2010, Winsum Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Xu Zhongping ("First Vendor"), who is a director and a substantial shareholder of the Company, and Mr. Lee Ho Fu Honcy ("Second Vendor") to acquire the assets and liabilities through acquisition of 100% equity interest in Power Score Limited ("Power Score") and its subsidiaries ("Power Score Group") at an initial consideration of RMB10,000,000 (equivalent to HK$11,668,000) and an upward adjustment of up to HK$46,672,000 (calculated based on 69,868,263 ordinary shares at HK$0.668 per share) ("Tranche II Consideration Shares"). The initial consideration of RMB10,000,000 was satisfied by the allotment and issuance of 17,467,066 ordinary shares with par value of HK$0.025 each at an issue price of HK$0.668 per share (Tranche I Consideration Shares) in the proportion of 55% and 45% between the First Vendor and the Second Vendor respectively, upon completion of the acquisition on 5 January 2011. The fair value of the Tranche I Consideration Shares represented 17,467,066 ordinary shares issued with a published share price of HK$0.44 per share as at 5 January 2011 of which 9,606,886 ordinary shares with fair value of HK$4,227,000 were issued to the First Vendor. The fair value of the Tranche II Consideration Shares was HK$27,274,000 of which HK$15,001,000 was attributable to the First Vendor. Details please refer to notes 33(b) and 36 to the financial statements.

(ii) The Group purchased vehicle spare parts of HK$2,101,000 (2010: HK$1,885,000) from and sold vehicle spare parts of HK$223,000 (2010: HK$37,000) to a related company namely Beijing Yardway Felyi Machinery and Equipment Limited. The related company and one of the Group's subsidiaries share a common senior management who are able to exercise significant influence over the related company and the subsidiary in making financial and operating policy decision.

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39. Commitments

a) At the end of the reporting period, the Group had the following capital commitments:

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Upgrade and construction of sewage treatment plants under a service concession arrangement on a BOT basis:				
— contracted, but not provided for	**88,030**	—	**—**	—
— authorised but not contracted for	**68,192**	—	**—**	—
	156,222	—	**—**	—
Purchase of equipment and motor vehicle — contracted, but not provided for	**828**	—	**—**	—
Total commitments	**157,050**	—	**—**	—

b) At 31 March 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Within 1 year	**4,721**	3,046	**1,014**	1,244
After 1 year but within 5 years	**2,202**	—	**—**	933
	6,923	3,046	**1,014**	2,177

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

Notes to the Financial Statements

For the year ended 31 March 2011

40. Contingent liabilities

At the end of the reporting period, the Company gave corporate guarantees for banking facilities of HK$28,075,000 (2010: HK$21,958,000) granted to certain subsidiaries. The maximum liability of the Company at the end of the reporting period under the guarantees issued was the facilities utilized by the subsidiaries totalling HK$14,206,000 (2010: HK$10,493,000). The directors do not consider it probable that a claim will be made against the Company.

41. Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Notes 15 and 16 contain information about the assumptions and their risk factors relating to valuation of leasehold land and buildings and investment properties respectively. Other key sources of estimation uncertainty are as follows:

(i) Write-down for obsolescence of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions. As at 31 March 2011, the carrying amount of inventories is HK$11,624,000 (2010: HK$8,196,000).

(ii) Depreciation and impairment loss of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recovered during the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Internal and external sources of information are reviewed at each of the end of the reporting period to identify indications that assets may be impaired. The Group will review the estimated future cash flows of the assets regularly in order to determine whether impairment loss is required. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

As at 31 March 2011, the carrying amount of property, plant and equipment is HK$21,896,000 (2010: HK$31,538,000).

(iii) Impairment loss on trade receivables

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and determine the amount of impairment loss as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

As at 31 March 2011, the carrying amount of trade receivables is HK$39,020,000 (2010: HK$29,739,000).

Notes to the Financial Statements

For the year ended 31 March 2011

41. Accounting estimates and judgements (Continued)

(a) Key sources of estimation uncertainty (Continued)

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. As at 31 March 2011, the carrying amount of deferred tax liabilities is HK$36,254,000 (2010: HK$3,299,000).

(v) Fair value of investment properties and leasehold land and buildings

Investment properties and leasehold land and buildings are carried in the statement of financial position at 31 March 2011 at their fair value. The fair value was based on a valuation on these properties conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and leasehold land and buildings and corresponding adjustments to the amount of gain or loss reported in the consolidated income statement and revaluation reserve. As at 31 March 2011, the carrying amounts of investment properties and leasehold land and buildings are HK$51,800,000 (2010: HK$28,630,000) and HK$14,964,000 (2010: HK$25,657,000) respectively.

(vi) Warranty provision

As explained in note 29, the Group makes provision for the warranty it gives on sales of its railway and metro maintenance equipments and vehicles based on the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years. As at 31 March 2011, the carrying amount of provision for warranty is HK$1,979,000 (2010: HK$2,403,000).

(vii) Impairment of intangible assets and operating concessions

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. As at 31 Mach 2011, the carrying amount of intangible assets is HK$61,179,000 (2010:HK$Nil). As at 31 March 2011, the carrying amount of operating concession is HK$117,759,000 (2010:HK$Nil).

41. Accounting estimates and judgements (Continued)

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(i) Impairment of goodwill

Goodwill is stated at cost less impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry and sector performance and financial information regarding the cash-generating units are taken into account.

(ii) Service concession arrangements

The Group entered into BOT arrangements in respect of its sewage treatment. The Group concluded that the BOT arrangements are services concession arrangements under HK(IFRIC) — Int 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In addition, upon expiry of concession rights agreement, the infrastructure will be transferred to the local government at nil consideration.

Classification for a service concession arrangement between the intangible asset component and the financial asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Construction contracts

Revenue and profit recognition on a uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the amounts due from customers for contract work will not include profit which the Group may eventually realise from the work to date. In addition, actual outcomes in terms of total cost of revenue may be higher or lower than estimated at the end of reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amount recorded to date.

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42. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2011

Up to the date of issuance of these financial statements, the HKICPA has issued a number of Amendments, new and revised Standards and Interpretations which are not yet effective for the year ended 31 March 2011. The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[3]
HKAS 24 (Revised in 2009)	Related Party Disclosures[6]
HKFRS 9	Financial Instruments[4]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in December 2010) adds requirements for financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

42. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2011 (Continued)

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

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

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

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HKFRIC 19 will affect the required accounting. In particular, under HKFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The Group is in the progress of making assessment of what impact of these amendments is expected to be in the period of initial application. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

Summary of Properties

For the year ended 31 March 2011

The following is a list of the group's properties at 31 March 2011:

Investment properties in the PRC

	Location	Lease term	Purpose	Gross area (sq.m.)
(1)	Rooms 1227 and 1228 on Level 12 of Block 1, Junefield Plaza Xuanwumenwaidajie East Xuanwu District Beijing The PRC	Medium	Commercial	190.97
(2)	Room 6B on level 6 and Car Parking Spacing No. 138 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Long	Residential	150.57
(3)	Portion of Building No. 1 and Building No. 2 located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	5,584.95
(4)	Two parcels of land (Nos. 1–40 and 1–41) located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	6,618.62

Summary of Properties

For the year ended 31 March 2011

Investment properties in Hong Kong

	Location	Lease term	Purpose	Gross area (sq.ft.)
(1)	House F25 of Stage IV Marina Cove 380 Hiram's Highway Hebe Haven Sai Kung New Territories Hong Kong	Medium	Residential	2,064

Leasehold properties in the PRC

	Location	Lease term	Purpose	Gross area (sq.m.)
(1)	Room 5E on level 5 and Car Parking Spacing No. 137 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Long	Residential	150.57
(2)	Flat A on Level 2 of Block D President Mansion No. 868 Hua Shan Road Shanghai The PRC	Long	Residential	151.27
(3)	Two parcels of land (Nos. 1–40 and 1–41) located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	4,205.83
(4)	Portion of Building No. 1 located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	3,548.98

Five Year Financial Summary

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
RESULTS					
Turnover	158,709	147,311	189,357	298,865	214,424
(Loss)/profit from operations	(43,534)	7,240	(13,636)	11,378	(953)
Finance costs	(226)	(262)	(1,019)	(2,347)	(1,749)
(Loss)/profit before taxation	(42,760)	6,978	(14,655)	9,031	(2,702)
Taxation	(917)	(3,238)	(172)	(2,241)	99
(Loss)/profit for the year	(43,677)	3,740	(14,827)	6,790	(2,603)
Attributable to:					
— Equity shareholders of the company	(43,677)	3,740	(14,810)	7,104	(2,735)
— Non-controlling interests	—	—	(17)	(314)	132
(Loss)/profit for the year	(43,677)	3,740	(14,827)	6,790	(2,603)
ASSETS AND LIABILITIES					
Non-current assets	253,060	61,243	54,840	55,735	62,628
Net current assets	96,684	137,689	135,585	72,592	51,670
Non-current liabilities	(60,092)	(3,828)	(2,516)	(6,639)	(7,707)
	289,652	195,104	187,909	121,688	106,591
Share capital	60,775	55,825	55,825	28,825	28,085
Reserves	228,877	139,279	132,084	92,278	77,607
Total equity attributable to equity shareholders of the company	289,652	195,104	187,909	121,103	105,692
Non-controlling interests	—	—	—	585	899
Total equity	289,652	195,104	187,909	121,688	106,591
(Loss)/earnings per share					
Basic	(1.90) cents	0.17 cents	(0.94) cents	1.25 cents	(1.0) cent
Diluted	(1.90) cents	0.17 cents	(0.94) cents	1.23 cents	N/A