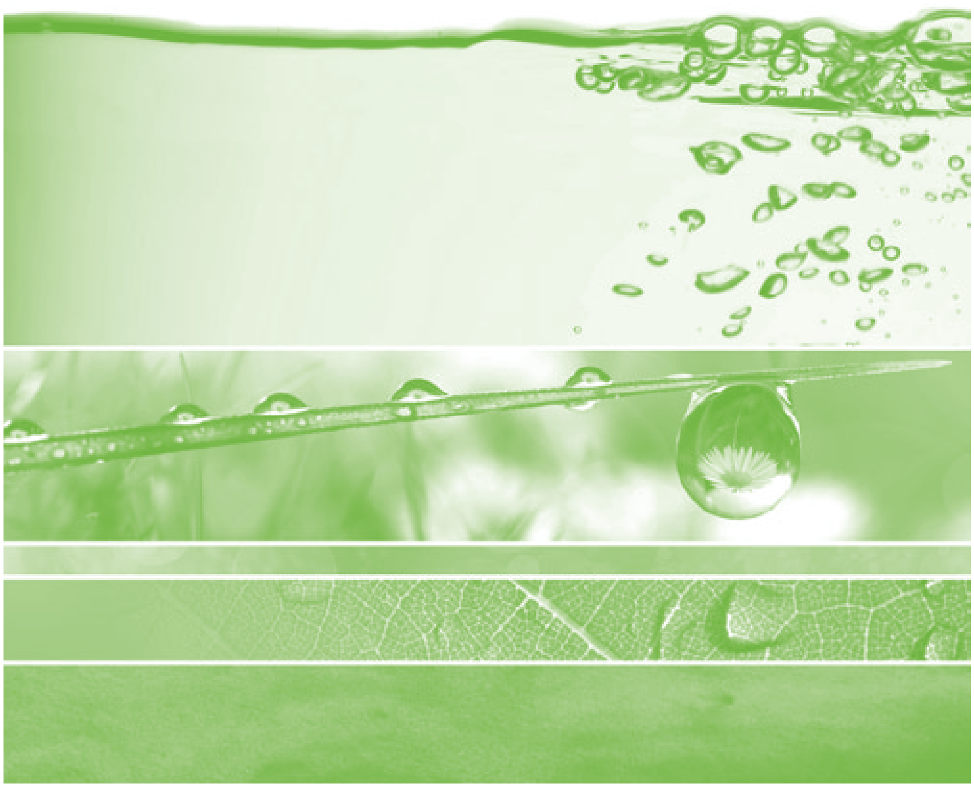
CHAOYUE

CHAOYUE GROUP LIMITED

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

ANNUAL REPORT 2011

Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Yuen Leong
Luan Li

Independent Non-Executive Directors

Lam Man Kit, Dominic
Yap Yung
Zhang Guang Sheng

COMPANY SECRETARY

Chung Yau Tong

AUDITOR

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Yap Yung *(Chairman)*
Lam Man Kit, Dominic
Zhang Guang Sheng

REMUNERATION COMMITTEE

Lam Man Kit, Dominic *(Chairman)*
Yap Yung
Zhang Guang Sheng

NOMINATION COMMITTEE

Zhang Guang Sheng *(Chairman)*
Lam Man Kit, Dominic
Yap Yung

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE

00147

COMPANY WEBSITE

www.chaoyuehk.com

The board of directors (the "Board" or the "Directors") of Chaoyue Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2011 (the "Current Year"), together with the comparative figures for the previous year.

OVERALL RESULTS

The Group recorded a turnover of HK$24,498,000 (2010: HK$107,700,000) and a gross loss of HK$20,927,000 (2010: gross profit of HK$51,704,000) for the Current Year. The turnover and gross loss were generated from Shanghai Comfort Environment and Science Co., Ltd. and its subsidiaries (the "SH Comfort Group") which engaged in direct drinking water machines, air and water purification equipment and environmental engineering businesses. Mining work is not yet commenced and no turnover and gross profit from the gold mine in Kyrgyzstan recorded in the Current Year.

The loss for the year of the Group reduced significantly from HK$7,108,385,000 in previous year to HK$244,737,000 for the Current Year. The significant loss recorded in previous year was mainly due to losses arising from the changes in fair value of derivative financial instruments and warrant liabilities amounted to HK$7,051,714,000. The loss for the Current Year was mainly resulted from impairment losses on property, plant and equipment, patents and goodwill amounted to HK$114,354,000 and foreseeable loss on construction contract, allowances for obsolete and slow moving inventories, bad and doubtful debts and impairment loss on advances to suppliers amounted to HK$70,259,000.

The loss per share of the Group for the Current Year was HK1.28 cents (2010: HK46.96 cents) and the Board does not recommend the payment of dividend for the Current Year.

REVIEW OF OPERATIONS

SH Comfort Group

SH Comfort Group engaged in direct drinking water machines business and air and water purification equipment and system businesses under the brand name of "OZONE COMFORT".

Direct drinking water machines

A business model by engaging agents in major provinces in China to operate and manage the direct drinking water machines business on its behalf instead of dealing with the end users in order to save the administrative effort was adopted by SH Comfort Group in late 2009. Nine agents were engaged in 2010 to help to spread the networks and capture the market shares. However, this plan was proved to be too aggressive. The pace of expansion was far behind the targets set to the agents and only 6,680 new direct water drinking machines were installed in the Current Year. Besides, the Group noted that the performance of certain agents in managing the business was well below our expectation and even had financial difficulties to settle the scheduled payment according to the contracts which resulted the Group a provision of allowance on bad and doubtful debts of HK$24,499,000 in the Current Year.

The turnover of this segment for the Current Year dropped significantly from HK$67,981,000 in previous year to HK$14,325,000 as a result of the non-performing agents. Impairment losses amounted to HK$114,354,000 on property, plant and equipment, patents and goodwill were induced by such poor performance. This segment ended up with a loss of HK$167,061,000 (2010: HK$33,250,000) for the Current Year.

The management decided to terminate the relationship with the agents and not to renew the agency agreements for the year 2011 and replaced them by appointing a sole agent. The sole agent was appointed to help to manage the direct drinking water machines already rented to the end-users and granted the rights to use the patent and technology to run the business on behalf of SH Comfort in certain regions with the brand "OZONE COMFORT" by paying an annual sole agent fee. A deposit of one year sole agent fee and one year agent fee had been received in advance with the previous bad experience.

Air and water purification equipment and environmental engineering

The air and water purification equipment and environmental engineering business also suffered a lot in the Current Year deal to the increase of cost of the raw materials which eroded the gross profit. Together with most of the contract works were slowed down or terminated by the clients as a result of the uncertainties of the global economy, the contract works which had been done were not able to confirm and recognise as revenue and the recoverability of certain receivable balances became doubtful. As a result, a gross loss and segment loss in the Current Year were recorded. The turnover recorded in the Current Period was HK$10,173,000 (2010: HK$39,719,000) and the segment loss was HK$53,104,000 (2010: segment profit of HK$758,000).

Gold mine

Exploration works were conducted according to requirement of the licenses and feasibility study report had been submitted to relevant government authorities for approval. Construction of roads, mining plant and supply of electricity will be commenced in near future according to the plan. In the Current Year, no turnover recorded and a segment loss of HK$24,142,000 (2010: HK$4,090,000) was recorded. The loss included mainly amortization of mining license of HK$12,636,000 (2010: HK$4,528,000) and the costs incurred for the exploration works, consultancy and advisory works, staff cost and administrative expenses.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisitions and disposal of subsidiaries and associated companies during the Current Year.

FINANCIAL REVIEW

Liquidity

The Group recorded net current asset of HK$2,705,000 as at 31 March 2011(2010: HK$55,280,000) and the current ratio was 1.03 (2010: 1.60). The drop of the current assets of the Group from HK$148,136,000 as at 31 March 2010 to HK$94,502,000 as at 31 March 2011 was deal to the provision made on the doubtful receivable balance and impairment on the contract works. The drop of current liabilities of the Group from HK$92,856,000 as at 31 March 2010 to HK$91,797,000 as at 31 March 2011 was deal to the combined effect of increase of other payables which represent the sole agent fee deposit and the sole agent fee received in advance and reclassification of an amount due to a director of a subsidiary and borrowings amounted to HK$29,559,000 as non-current liabilities. The bank balance as at 31 March 2011 was HK$81,474,000 (2010: HK$83,618,000), of which most were denominated in Hong Kong dollars, US dollars and Renminbi.

Gearing ratio

The gearing ratio of the Group, which was expressed as a percentage of total borrowings to shareholders' equity, as at 31 March 2011 was 29.72% as compared to 9.50% as at 31 March 2010. The total borrowings as at 31 March 2011 amounted to approximately HK$29,559,000 (2010: HK$32,563,000) represented borrowings of HK$9,498,000 (2010: HK$9,099,000) from an independent third party, which were interest-bearing at 12% per annum, and an amount due to a director of a subsidiary of HK$20,061,000 (2010: HK$23,464,000), which was interest free. These two borrowings were contracted to be repayable at 31 March 2014 without security. The increase in the gearing ratio is mainly due to the decrease in shareholders' equity as a result of the loss incurred for the Current Year.

Financial resources

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

Capital structure

On 16 July 2010, 214,637,160 shares of Non-voting Convertible Preference Shares were issued as the consideration for the acquisition of Park Wealth International Limited, which is the holding company of SH Comfort Group.

As at 31 March 2011, the Group had 18,824,435,160 ordinary shares and 214,637,160 shares of Non-voting Convertible Preference Shares in issued and recorded a shareholders' equity of HK$99,453,000.

Charges on assets

As at 31 March 2011, the Group had no charge on assets (2010: Nil).

Contingent liabilities

As at 31 March 2011, the Group had no contingent liabilities (2010: Nil).

Foreign exchange exposure

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

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2011, the Group had approximately 10, 12 and 22 employees in Hong Kong, Kyrgyzstan and the PRC respectively. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance. No share option was granted during the Current Year and there were 66,000,000 share options granted to the directors and employees of the Group as at 31 March 2011.

FUTURE PLAN AND PROSPECTS

Current Year is a hard time for the Group as a result of the aggressive expansion plan adopted by SH Comfort Group together with the increasing raw materials cost. After the painful lesson, the Group decided to slow down its business expansion plan and adopt a conservative approach instead of strike for the market share for the SH Comfort Group and targets to manage the business in a healthy way in terms of result and cash flow in the coming year.

Exploration work will continue to carry out to find and locate additional resources for the gold mine. Construction of the infrastructure around the mine is planned to carry out in near term and the coming years is the investing phase for this project. In view of the continuing high demand of precious metals and the climbing trend of the gold price over the past years, the Directors expect that the gold mine will bring a wealthy return to the Group in the future.

The management will continue to seek potential investment opportunities to diversify the business scope and expanding the income source of the Group to enhance the profitability and maximize the value of the Group in order to reward the shareholders for their long term and strong support.

APPRECIATION

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

By order of the Board
Chaoyue Group Limited

Yuen Leong
Director

Hong Kong, 30 June 2011

YUEN LEONG
Executive Director

Mr. Yuen Leong, aged 53, was appointed as an Executive Director of the Company on 1 January 2008. Mr. Yuen holds a master degree in mechanical engineering from the Shanghai Jiao Tong University and was a senior research analyst of 福建省研究發展中心 (Fujian Provincial Research and Development Center) from 1985 to 1991. Mr. Yuen is a director of Origin Seed Technology Inc., a company listed on Nasdaq. Mr. Yuen has over ten years of experience in corporate management and operation.

LUAN LI
Executive Director

Ms. Luan Li, aged 42, was appointed as an Executive Director of the Company on 20 August 2009. Ms. Luan graduated from the former 北京實驗大學 (Beijing Experimental University*) in 1990 majored in English for Foreign Enterprises. She has also obtained an Executive Master of Business Administration from the Queen's University of Brighton in 2003. Ms. Luan has over 20 years of experience in mineral resources trading, real estate development and investment in the agricultural industry. From 1991 to 1992, Ms. Luan was the manager of Guangzhou Branch of Leunson Trans Tech Corp. (USA) which was principally engaged in the business of mineral resources and equipment export trading. From 1992 onwards, Ms. Luan was appointed as a member of senior management team of several multinational companies in Hong Kong and Mainland China which were principally engaged in real estate investment and development business and investment in the agricultural industry.

LAM MAN KIT, DOMINIC
Independent Non-Executive Director

Dr. Lam Man Kit, aged 63, was appointed as an Independent Non-Executive Director of the Company on 1 January 2008. Dr. Lam is the Chairman of the World Eye Organization. Dr. Lam obtained a doctorate degree in Medical Biophysics in 1970. He was appointed as Assistant Professor at Harvard Medical School and subsequently Professor of Biotechnology and Ophthalmology at Baylor College of Medicine. In 1988, Dr. Lam was invited to be the Founding Director of the Hong Kong Institute of Biotechnology. In 1990, Dr. Lam was appointed a member of the US President's Committee on the Arts and Humanities and awarded the KPMG Peat Marwick's High Tech Entrepreneur of the Year. Since January 2003, Dr. Lam was an independent non-executive director of New World TMT Limited, a company previously listed on the main board of the Stock Exchange and was privatized in March 2006.

YAP YUNG
Independent Non-Executive Director

Mr. Yap Yung, aged 37, was appointed as an Independent Non-Executive Director of the Company on 20 August 2009. Mr. Yap graduated from the University of Hong Kong in 1995 with a Bachelor's degree in mechanical engineering. He became a member of the Hong Kong Institute of Certified Public Accountants since 1999. He has also completed an advanced management course held by the London Business School and the University of Cambridge in 2003. Mr. Yap has over 10 years of corporate finance and audit experience gained from his previous employment. Mr. Yap was employed by PricewaterhouseCoopers as an audit manager from 1995 to 2002. Mr. Yap is currently the chief financial officer of China Lifestyle F&B Group Ltd., a company previously listed on the Singapore Exchange Limited and was privatized in May 2010.

ZHANG GUANG SHENG
Independent Non-Executive Director

Mr. Zhang Guang Sheng, aged 61, was appointed as an Independent Non-Executive Director of the Company on 20 August 2009. Mr. Zhang graduated from 山東礦業學院 (Shangdong Mining Institute*) in 1975 majored in coal mining. Since graduation, he taught in 福建省煤炭工業學校 (Fujian Provincial Institute of Coal and Charcoal Industry) till 1980. Since 1980, Mr. Zhang has served various posts with the PRC government. From 1985 to 1998, Mr. Zhang worked in 福建省人民政府辦公廳 (Fujian Provincial Government). During 1998 to 2000, Mr. Zhang was the managing director and vice general manager of 福建中旅集團 (Fujian CTS Group). Since 2003, Mr. Zhang is the assistant managing officer of 福建省口岸海防辦 (the Office of the Port Opening and Coastal Defense of Fujian Province).

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is committed to promote good corporate governance to safeguard the interests of shareholders. The Company set out its corporate governance practices by reference to the Code Provision on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company has complied with the CG Code throughout the financial year ended 31 March 2011 except for code provision A.2.1, which required that the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual. Details for the deviation with explanation are disclosed below.

BOARD OF DIRECTORS

The Board

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

The Board currently comprises five members. Two Executive Directors, namely: Mr. Yuen Leong and Ms. Luan Li; and three Independent Non-Executive Directors, namely: Dr. Lam Man Kit Dominic, Mr. Yap Yung and Mr. Zhang Guang Sheng.

The biographical details of the Board members are set out on page 6 of this Annual Report.

The Board meets regularly and additional meetings are convened as and when required to discuss the day-to-day operations and other affairs with the management. The Board met 5 times during the year ended 31 March 2011 and the attendance record is set out below:

	Attendance/ Number of Meetings
Executive Directors	
Mr. Yuen Leong	5/5 (4/4)*
Ms. Luan Li	5/5 (4/4)*
Independent Non-Executive Directors	
Dr. Lam Man Kit Dominic	5/5 (4/4)*
Mr. Yap Yung	5/5 (4/4)*
Mr. Zhang Guang Sheng	5/5 (4/4)*

* Regular Board meetings

During the year, not less than 14 days notice is given of a regular board meeting. Directors are welcomed to include matters to be discussed in the agenda before the meetings. The Directors have to declare their interests in the subject matters to be considered in the relevant meeting and the director, who or whose associates have any interest in any proposed resolution, must abstain from voting and will not be counted in quorum.

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

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

Chairman and Chief Executive Officer

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

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

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

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

Board composition

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

As at the date of this report, the Board comprises five members, consisting of two Executive Directors and three Independent Non-executive Directors. The number of Independent Non-Executive Directors in the Board represents more than one-third of the Board in order to maintain a strong independent element on the Board, which can exercise independent judgment and ensure balance of power and authority.

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

Appointments, re-election and removal

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

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

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

Responsibilities of directors

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year.

Supply of and access of information

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

BOARD COMMITTEES

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

(a) Remuneration Committee

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

The Company's objectives for its remuneration policy are to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to Directors and senior management, market rates, director's workload and responsibilities and general economic situation would be taken into consideration.

The existing Remuneration Committee comprises three Independent Non-Executive Directors, namely Dr. Lam Man Kit, Dominic (Chairman of the Remuneration Committee), Mr. Yap Yung and Mr. Zhang Guang Sheng.

The Remuneration Committee has held one meeting during the year ended 31 March 2011 to review the remuneration packages of the Executive Directors of the Company and make recommendation to the Board. Individual attendance of each member of Remuneration Committee is set out below:

Name of Remuneration Committee Members	Attendance/ Number of Meetings
Dr. Lam Man Kit Dominic *(Chairman)*	1/1
Mr. Yap Yung	1/1
Mr. Zhang Guang Sheng	1/1

(b) Nomination Committee

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

The Committee's objectives are to ensure formal, fair and transparent procedures for the new appointment and re-appointment of directors to the Board.

The existing Nomination Committee comprises three Independent Non-Executive Directors, namely Mr. Zhang Guang Sheng (Chairman of Nomination Committee), Dr. Lam Man Kit, Dominic and Mr. Yap Yung.

The Nomination Committee has held one meeting in the year ended 31 March 2011 to review the experience, qualification, professional knowledge, personal ethnics and integrity of the candidate of the nominees to be appointed as director of the Company, to review the structure, size and composition of the Board and to consider the independence of all the Independent Non-Executive Directors. Individual attendance of each member of Nomination Committee is set out below:

Name of Nomination Committee Members	Attendance/ Number of Meetings
Mr. Zhang Guang Sheng *(Chairman)*	1/1
Dr. Lam Man Kit Dominic	1/1
Mr. Yap Yung	1/1

(c) Audit Committee

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

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

The existing Audit Committee comprises of three Independent Non-executive Directors, namely Mr. Yap Yung (Chairman of Audit Committee), Dr. Lam Man Kit Dominic and Mr. Zhang Guang Sheng, and none of whom is a former partner of the Company's existing auditing firm. Mr. Yap Yung, has the appropriate professional qualification, accounting or related financial management expertise.

The Audit Committee held four meetings in the year ended 31 March 2011 for considering re-appointment of auditors, reviewing the annual results of the Group for the year ended 31 March 2010 and the interim results of the Group for the six months ended 30 September 2010 and discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and reviewing the internal control system of the Group. Individual attendance of each member of Audit Committee is set out below:

Name of Audit Committee Members	Attendance/ Number of Meetings
Mr. Yap Yung *(Chairman)*	4/4
Dr. Lam Man Kit Dominic	4/4
Mr. Zhang Guang Sheng	4/4

ACCOUNTABILITY AND AUDIT

Financial reporting

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

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement of the Auditors of the Company about their responsibilities on the financial statement of the Group is set out in the Independent Auditor's Report on pages 19 and 20.

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

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Company has engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group including recommendations to enhance the overall internal control system for the year ended 31 March 2011. The internal control review report has been approved by Audit Committee and the Board. Based on information furnished to it and on its own observations, the Board is satisfied with the present internal controls system.

Auditor's remuneration

For the year ended 31 March 2011, the Group's external auditors provided the following services to the Group:

	HK$'000
Statutory audit and interim review	2,100
Taxation	5
	2,105

SHAREHOLDERS RELATIONS

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

On behalf of the Board
Chaoyue Group Limited

Yuen Leong
Director

Hong Kong, 30 June 2011

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Company for the year ended 31 March 2011.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2011 are set out in the consolidated income statement on page 21 of this Annual Report.

The Directors do not recommend the payment of dividend for the year ended 31 March 2011.

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

Particular of borrowings of the Group as at 31 March 2011 is set out in notes 25 and 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out on page 24 of this Annual Report.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company did not have any reserves available for distribution to shareholders as at 31 March 2011.

FIVE YEARS SUMMARY

A summary of the results and other assets and liabilities of the Group for the last five financial years is set out on page 84 of this Annual Report.

DIRECTORS

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

Executive Directors:

Yuen Leong
Luan Li

Independent Non-Executive Directors:

Lam Man Kit, Dominic
Yap Yung
Zhang Guang Sheng

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

Biographical details of Directors are set out on page 6 of this Annual Report.

DIRECTOR'S REMUNERATION

The remuneration of the Directors is determined with reference to the Director's duties, responsibilities, performance and the results of the Group. Details of the remuneration of the Directors are set out in note 14 to the consolidated financial statements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors of the Company or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2011, the interests and short positions of the directors and the chief executive and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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

Ordinary shares of HK$0.001 each of the Company

Name of Director	Capacity in which interests are held	Options to subscribe for Shares of the Company	Number of Shares interested	Interests as to % to the issued share capital of the Company
Yuen Leong	Interest of a controlled corporation	–	12,887,473,880 *(Note 1)*	68.46%
	Beneficial owner	9,000,000 *(Note 2)*	–	0.05%
Lam Man Kit, Dominic	Beneficial owner	9,000,000 *(Note 2)*	–	0.05%

Notes:

(1) These 12,887,473,880 shares are held by Long Grand Limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 12,887,473,880 shares held by Long Grand Limited for the purposes of the SFO.

(2) Pursuant to the share option scheme adopted by a resolution of the Shareholders on 17 September 2004, these share options were granted on 17 July 2008 and are exercisable at HK$0.532 per Share (adjusted after share subdivision on 3 August 2009) from 17 July 2008 to 16 September 2014.

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

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

Save as disclosed above, as at 31 March 2011, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 36 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

	Exercise period	Outstanding at 1 April 2010	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 March 2011
Directors:						
Yuen Leong	17/7/2008 – 16/9/2014	3,000,000	–	–	–	3,000,000
	17/7/2009 – 16/9/2014	3,000,000	–	–	–	3,000,000
	17/7/2010 – 16/9/2014	3,000,000	–	–	–	3,000,000
Lam Man Kit, Dominic	17/7/2008 – 16/9/2014	3,000,000	–	–	–	3,000,000
	17/7/2009 – 16/9/2014	3,000,000	–	–	–	3,000,000
	17/7/2010 – 16/9/2014	3,000,000	–	–	–	3,000,000
Total directors		18,000,000	–	–	–	18,000,000
Employees	17/7/2008 – 16/9/2014	16,000,000	–	–	–	16,000,000
	17/7/2009 – 16/9/2014	16,000,000	–	–	–	16,000,000
	17/7/2010 – 16/9/2014	16,000,000	–	–	–	16,000,000
Total employees		48,000,000	–	–	–	48,000,000
Grant total		**66,000,000**	**–**	**–**	**–**	**66,000,000**

All share options were granted on 17 July 2008. The number of share options and exercised price had been adjusted after share subdivision on 3 August 2009. The adjusted exercise price is HK$0.532 per shares.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

At 31 March 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Interest in shares	Nature of interest	Percentage of the Company's issued share capital
Long Grand Limited *(Note)*	12,887,473,880	Direct beneficial owner	68.46%

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2011.

CONNECTED TRANSACTIONS

Neither the Group nor the Company has any connected transactions and/or continuing connected transactions as defined under Chapter 14A of the Listing Rules during the year under review.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 March 2011, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the year.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

The Company has adopted the share option scheme and granted share options to Directors and eligible employees for the year ended 31 March 2011. Details of the scheme and the movements in the share options granted are set out in note 36 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

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

LITIGATION AND ARBITRATION

As at the date of this report, there was no any litigation and arbitration for the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2011.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer and five largest customers accounted for approximately 3.07% (2010: 7.94%) and 9.85% (2010: 26.38%) respectively of the Group's total turnover for the year.

The Group's largest supplier and five largest suppliers accounted for approximately 49.02% (2010: 18.31%) and 88.32% (2010: 41.25%) respectively of the Group's total purchases for the year.

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

POST BALANCE SHEET EVENTS

No significant events occurring after the Balance Sheet date.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 March 2011 have been audited by Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Yuen Leong
Director

Hong Kong, 30 June 2011

Deloitte.
德勤

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

We have audited the consolidated financial statements of Chaoyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 83, which comprise the consolidated statement of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 the 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 the 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 and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 June 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	NOTES	2011 HK$'000	2010 HK$'000
Continuing operations			
Revenue	7	**24,498**	107,700
Cost of sales		**(45,425)**	(55,996)
Gross (loss) profit		**(20,927)**	51,704
Other income, gains and losses	8	**7,678**	14,109
Distribution and selling expenses		**(12,942)**	(19,942)
Administrative and other expenses		**(109,774)**	(66,562)
Finance costs	9	**(1,114)**	(3,332)
Changes in fair value of derivative financial instruments	10	**–**	(4,324,025)
Changes in fair value of derivative warrant liabilities	11	**–**	(2,727,689)
Impairment loss on property, plant and equipment	16	**(63,753)**	–
Impairment loss on intangible assets	17	**(23,516)**	(45,694)
Impairment loss on goodwill	18	**(27,085)**	–
Loss before taxation		**(251,433)**	(7,121,431)
Income tax credit	12	**6,696**	13,133
Loss for the year from continuing operations		**(244,737)**	(7,108,298)
Discontinued operation			
Loss for the year from discontinued operation	13	**–**	(87)
Loss for the year	14	**(244,737)**	(7,108,385)
Other comprehensive income for the year			
Exchange differences on translation		**(1,039)**	461
Total comprehensive expense for the year		**(245,776)**	(7,107,924)
Loss for the year attributable to:			
Owners of the Company		**(243,150)**	(7,107,864)
Non-controlling interests		**(1,587)**	(521)
		(244,737)	(7,108,385)
Total comprehensive expense attributable to:			
Owners of the Company		**(244,273)**	(7,107,450)
Non-controlling interests		**(1,503)**	(474)
		(245,776)	(7,107,924)
Loss per share – basic and diluted	15		
From continuing and discontinued operations		**HK(1.28) cents**	HK(46.96) cents
From continuing operations		**HK(1.28) cents**	HK(46.96) cents

Consolidated Statement of Financial Position

At 31 March 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**16,281**	95,491
Intangible assets	17	**131,770**	173,851
Goodwill	18	**–**	27,085
Receivables in respect of sales of direct drinking water purification machines	22	**–**	27,680
		148,051	324,107
Current assets			
Inventories	20	**1,147**	1,948
Amounts due from customers for contract work	21	**1,556**	11,296
Trade and other receivables	22	**10,325**	51,274
Bank balances and cash	23	**81,474**	83,618
		94,502	148,136
Current liabilities			
Amounts due to customers for contract work	21	**923**	2,249
Trade and other payables	24	**77,634**	46,756
Amount due to a director of a subsidiary	25	**–**	23,464
Tax payable		**2,508**	2,769
Borrowings	26	**–**	9,099
Warranty provision	27	**1,428**	1,281
Deferred income	28	**9,304**	7,238
		91,797	92,856
Net current assets		**2,705**	55,280
Total assets less current liabilities		**150,756**	379,387
Non-current liabilities			
Amount due to a director of a subsidiary	25	**20,061**	–
Borrowings	26	**9,498**	–
Deferred income	28	**17,361**	23,852
Deferred taxation	29	**–**	6,750
		46,920	30,602
		103,836	348,785

	NOTES	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	*31*	**18,824**	18,824
Reserves		**80,629**	324,075
Equity attributable to owners of the Company		**99,453**	342,899
Non-controlling interests		**4,383**	5,886
		103,836	348,785

The financial statements on pages 21 to 83 were approved and authorised for issue by the Board of Directors on 30 June 2011 and are signed on its behalf by:

Yuen Leong	**Luan Li**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

	Attributable to owners of the Company										
	Share capital HK$'000	Non-voting convertible preference shares HK$'000 *(note 30)*	Share premium HK$'000	Contributed surplus *(note 32)* HK$'000	Capital redemption reserve HK$'000 *(Note)*	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2009	3,370	41,170	23,685	51,655	3,781	13,900	12	(65,105)	72,468	–	72,468
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	414	–	414	47	461
Loss for the year	–	–	–	–	–	–	–	(7,107,864)	(7,107,864)	(521)	(7,108,385)
Total comprehensive expense for the year	–	–	–	–	–	–	414	(7,107,864)	(7,107,450)	(474)	(7,107,924)
Conversion of convertible bonds into ordinary shares	12,300	–	3,639,200	–	–	–	–	–	3,651,500	–	3,651,500
Shares issued on exercise of share options	6	–	4,627	–	–	(1,441)	–	–	3,192	–	3,192
Shares issued upon exercise of warrants	3,075	–	3,637,972	–	–	–	–	–	3,641,047	–	3,641,047
Share-based payments	–	–	–	–	–	4,629	–	–	4,629	–	4,629
Share options lapsed	–	–	–	–	–	(1,758)	–	1,758	–	–	–
Shares issued upon acquisition of assets and liabilities *(note 32(b))*	73	–	77,440	–	–	–	–	–	77,513	6,360	83,873
At 31 March 2010 and 1 April 2010	18,824	41,170	7,382,924	51,655	3,781	15,330	426	(7,171,211)	342,899	5,886	348,785
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	(1,123)	–	(1,123)	84	(1,039)
Loss for the year	–	–	–	–	–	–	–	(243,150)	(243,150)	(1,587)	(244,737)
Total comprehensive expense for the year	–	–	–	–	–	–	(1,123)	(243,150)	(244,273)	(1,503)	(245,776)
Share-based payments	–	–	–	–	–	827	–	–	827	–	827
At 31 March 2011	18,824	41,170	7,382,924	51,655	3,781	16,157	(697)	(7,414,361)	99,453	4,383	103,836

Note: The capital redemption reserve represents amounts transferred from contributed surplus upon the repurchase of the Company's shares.

	NOTES	2011 HK$'000	2010 HK$'000
Operating activities			
Loss before taxation		**(251,433)**	(7,121,518)
Adjustments for:			
Depreciation of property, plant and equipment		**20,095**	19,116
Amortisation of intangible assets		**16,120**	23,328
Impairment loss on property, plant and equipment		**63,753**	–
Impairment loss on goodwill		**27,085**	–
Impairment loss on intangible assets		**23,516**	45,694
Loss (gain) on disposal of property, plant and equipment		**15**	(1,733)
Allowance on bad and doubtful debts, net		**41,898**	4,230
Impairment loss on advances to suppliers		**10,802**	–
Allowance for contract costs incurred		**16,865**	–
Allowance for obsolete and slow-moving inventories		**694**	–
Bank interest income		**(264)**	(134)
Gain on extension of non-interest bearing payable to a director of a subsidiary		**(4,177)**	–
Finance costs		**1,114**	3,332
Warranty charges		**191**	834
Share-based payment expenses		**827**	4,629
Gain on disposal of a subsidiary		**(3)**	–
Imputed interest income on non-current interest-free instalment receivables		**–**	(564)
Changes in fair value of derivative financial instruments		**–**	4,324,025
Changes in fair value of derivative warrant liabilities		**–**	2,727,689
Operating cash flows before movements in working capital		**(32,902)**	28,928
Decrease in inventories		**107**	3,517
Increase in amounts due from customers for contract work		**(7,125)**	(6,776)
Decrease (increase) in trade and other receivables		**14,650**	(23,167)
Decrease in amounts due to customers for contract work		**(1,326)**	(5,718)
Increase (decrease) in trade and other payables		**31,009**	(11,248)
Decrease in warranty provision		**(44)**	(503)
(Increase) decrease in deferred income		**(5,655)**	6,498
Increase in receivables in respect of sales of direct drinking water purification machines		**–**	(13,512)
Cash used in operations		**(1,286)**	(21,981)
Enterprise income tax ("EIT") paid, net		**(315)**	(3,009)
Net cash used in operating activities		**(1,601)**	(24,990)

For the year ended 31 March 2011

	NOTES	2011 HK$'000	2010 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(928)**	(25,584)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	*33(a)*	**(1)**	–
Interest received		**264**	134
Proceeds from disposal of property, plant and equipment		**5**	1,448
Acquisition of assets and liabilities (net of cash and cash equivalents acquired)	*33(b)*	**–**	(62,063)
Net cash used in investing activities		**(660)**	(86,065)
Financing activities			
Repayment to a director of a subsidiary		**(111)**	(1,791)
Proceeds from issue of new shares upon exercise of warrants		**–**	46,125
Proceeds from issue of new shares upon exercise of share options		**–**	3,192
Net cash (used in) from financing activities		**(111)**	47,526
Net decrease in cash and cash equivalents		**(2,372)**	(63,529)
Cash and cash equivalents at beginning of the year		**83,618**	147,142
Effect of foreign exchange rate changes		**228**	5
Cash and cash equivalents at end of the year, represented by bank balances and cash		**81,474**	83,618

1. GENERAL

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

The functional currency of the Company is Renminbi ("RMB") as the Group's operation is mainly in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Hong Kong Dollars ("HKD"). The directors consider that HKD is the appropriate presentation currency as the management of the Company controls and monitors the performance and financial position of the Group by using HKD.

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

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

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the accounting periods beginning on or after 1 April 2010.

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 32 (Amendments)	Classification of Rights Issues
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
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

The adoption of these new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures- Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
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 and 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 November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are 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.

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

New and revised Standards and Interpretations issued but not yet effective (Continued)

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, 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 is presented in profit or loss.

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

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 31 March 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 April 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

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 ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place 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 fair value at the acquisition date, except that:

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

- liabilities or equity instruments related to share-based payment 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

- 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.

Business combinations that took place prior to 1 April 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 proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

Royalty fee income is recognised when the rights to receive payment are established.

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

Contract revenue from construction and installation contract is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the stage of completion of the contract activity at the end of the reporting period. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units (or groups of cash generating units) that is expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequent 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 a subsequent periods.

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

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessor

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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, a disposal involving loss of joint control over a jointly controlled entity 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 addition, in relation to 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 or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

Retirement benefit scheme

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses as follows:

(i) *Mining license*

Mining license are stated at cost less accumulated amortisation and impairment losses. The mining license are amortised using straight line method over the remaining terms of the mining license under the exploration and evaluation period. Such mining license will be transferred to mining rights, another sub-category of intangible assets, when the technical feasibility and commercial viability of extracting the mineral resources in the mine are demonstrated. On the other hand, when it is established that the mining is not economically viable, the net carrying amount of the mining license will be written off.

(ii) *Patents*

Patents are stated at cost less accumulated amortisation and impairment losses. The patents are amortised on a straight line basis over the respective periods of the useful life.

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

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts

The Group is engaged in the construction and installation of air purification and sewage treatment system. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

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

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method (Continued)

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Non-voting convertible preference shares

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

When the non-voting convertible preference shares are converted, the convertible preference shares is transferred to ordinary share capital and share premium. Transaction costs relating to issuance of the equity instrument are charged directly to equity.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a director of a subsidiary and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the management has made various estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

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

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of recoverable amount of the cash-generating units ("CGUs") to which goodwill has been allocated which is based on the value in use of the relevant CGUs. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. When the actual future cash flows are less than expected, a material impairment loss may arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of property, plant and equipment and intangible assets

As at 31 March 2011, the management reconsidered the recoverability of property, plant and equipment and intangible assets, which are included in its consolidated statement of financial position, of approximately HK$16,281,000 (2010: HK$95,491,000) and HK$131,770,000 (2010: HK$173,851,000), respectively. Management has evaluated the recoverability of the property, plant and equipment and intangible assets by way of discounted cash flow analysis on sales forecast and discount rate and a considerable amount of judgment is required. If the actual sales achieved are less than expected, further impairment loss may be recognised.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of trade and other receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2011, the carrying amount of trade and other receivables is HK$10,325,000 (net of allowance for doubtful debts of HK$58,619,000) (2010: carrying amount of HK$78,954,000, net of allowance for doubtful debts of HK$5,919,000).

Revenue recognition of construction contracts

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

Provision

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

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the amount due to a director of a subsidiary disclosed in note 25, borrowings disclosed in note 26, cash and cash equivalents disclosed in note 23, and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**89,317**	138,871
Financial liabilities		
Amortised cost	**59,178**	50,330

(b) Financial risk management objectives and policies

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

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

Foreign currency risk management

The Group has bank balances and intercompany balances denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets at the end of respective reporting periods are as follow:

	2011 HK$'000	2010 HK$'000
Assets		
HKD	**54,849**	53,322
United States Dollars ("USD")	**22,508**	23,932

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

6. FINANCIAL INSTRUMENTS (Continued)

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

Sensitivity analysis

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

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

	2011	2010
	HK$'000	HK$'000
RMB against HKD		
Loss before tax for the year	**(327)**	(2,666)
RMB against USD		
Loss before tax for the year	**(1,125)**	(1,197)

Interest rate risk management

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowing (see note 26). The Group currently do not enter into any hedging instrument for fair value interest rate risk.

The directors of the Company consider the exposure to interest rate risk is minimal and no sensitivity analysis on cash flow interest rate risk is therefore presented.

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk management

As at 31 March 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

Liquidity risk management

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

The Group relies on borrowings and amount due to a director of a subsidiary as a significant source of liquidity.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk management (Continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	Less than 1 month	1-3 to 1 year	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 March 2011							
Non-derivative financial liabilities							
Trade payables	**–**	**3,174**	**5,427**	**2,508**	**–**	**11,109**	**11,109**
Other payables	**–**	**3,133**	**3,234**	**2,143**	**10,000**	**8,510**	**18,510**
Amount due to a director of a subsidiary	**6.65**	**–**	**–**	**–**	**23,779**	**23,779**	**20,061**
Borrowings	**12**	**–**	**–**	**–**	**12,917**	**12,917**	**9,498**
		6,307	**8,661**	**4,651**	**46,696**	**56,315**	**59,178**
As at 31 March 2010							
Non-derivative financial liabilities							
Trade payables	–	2,933	5,286	2,200	–	10,419	10,419
Other payables	–	2,705	2,955	1,688	–	7,348	7,348
Amount due to a director of a subsidiary	–	23,464	–	–	–	23,464	23,464
Borrowings	12	–	–	10,190	–	10,190	9,099
		29,102	8,241	14,078	–	51,421	50,330

(c) Fair value

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

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

7. REVENUE AND SEGMENT INFORMATION

Continuing operations

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

	2011	2010
	HK$'000	HK$'000
Sale of goods	**10,162**	22,521
Contract revenue	**11**	17,198
Rental income	**11,928**	44,346
Royalty fee income	**2,397**	23,635
	24,498	107,700

The segment information reported externally was analysed on the basis of their products and services supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group around differences in products and services. The Group's operating segments and their principal activities are as follows:

Continuing operations

Direct drinking water – Lease of direct drinking water purification machines and royalty income for use of the Group's brand name

Purification equipment – Manufacturing and sales of air purification and water purification equipments

Environmental engineering – Construction and installation of air purification and sewage treatment system

Mining – Exploration of gold and copper

Discontinued operation

Garment – The Group was involved in manufacturing and sales of garment business, which was reported as a separate business segment in previous years. This operation was discontinued with effect from July 2009 (note 13).

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by operating segments for the year under review:

For the year ended 31 March 2011

	Direct drinking water HK$'000	Purification equipment HK$'000	Environmental engineering HK$'000	Mining HK$'000	Elimination HK$'000	Total HK$'000
Revenue						
External sales	14,325	10,162	11	–	–	24,498
Inter-segment sales	2,198	–	–	–	(2,198)	–
Total	16,523	10,162	11	–	(2,198)	24,498
Result						
Segment result	(167,061)	(30,613)	(22,491)	(24,142)	636	(243,671)
Unallocated income						7,355
Unallocated corporate expenses						(14,003)
Finance costs						(1,114)
Loss before taxation						(251,433)

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 March 2010

	Direct drinking water HK$'000	Purification equipment HK$'000	Environmental engineering HK$'000	Mining HK$'000	Elimination HK$'000	Total HK$'000
Revenue						
External sales	67,981	22,521	17,198	–	–	107,700
Inter-segment sales	–	35,379	–	–	(35,379)	–
Total	67,981	57,900	17,198	–	(35,379)	107,700
Result						
Segment result	(33,250)	(1,407)	2,165	(4,090)	553	(36,029)
Unallocated income						698
Unallocated corporate expenses						(31,054)
Finance costs						(3,332)
Changes in fair value of derivative financial instruments						(4,324,025)
Changes in fair value of derivative warrant liabilities						(2,727,689)
Loss before taxation						(7,121,431)

Note: Inter-segment sales are charged at prevailing market rates.

The accounting policies of the reportable segments are the same as the Group's accounting policies in note 3. Segment results represent the results from each segment without allocation of central administration costs and directors' salaries, some items of other income, finance costs, changes in fair value of derivative financial instruments, changes in fair value of derivative warrant liabilities. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment.

	2011	2010
	HK$'000	HK$'000
Assets		
Segment assets		
Direct drinking water	**15,005**	152,874
Purification equipment	**8,853**	56,861
Environmental engineering	**1,719**	25,811
Mining	**131,770**	146,851
Total segment assets	**157,347**	382,397
Unallocated assets		
– Bank balance and cash	**81,474**	83,618
– Others	**3,732**	6,228
Total unallocated assets	**85,206**	89,846
Consolidated total assets	**242,553**	472,243
Liabilities		
Segment liabilities		
Direct drinking water	**73,498**	46,104
Purification equipment	**19,190**	17,868
Environmental engineering	**3,369**	6,903
Mining	**2,071**	2,309
Total segment liabilities	**98,128**	73,184
Unallocated liabilities		
– Amount to a director of a subsidiary	**20,061**	23,464
– Tax payable	**2,508**	2,769
– Borrowings	**9,498**	9,099
– Deferred taxation	**–**	6,750
– Others	**8,522**	8,188
Total unallocated liabilities	**40,589**	50,270
Liabilities relating to discontinued operation	**–**	4
Consolidated total liabilities	**138,717**	123,458

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

- all assets are allocated to reportable segments other than bank balances and cash and other assets not attributable to respective segment; and
- all liabilities are allocated to reportable segments other than amount due to a director of a subsidiary, tax payable, borrowings, deferred taxation and other liabilities not attributable to respective segment.

Other segment information

For the year ended 31 March 2011

	Direct drinking water HK$'000	Purification equipment HK$'000	Environmental engineering HK$'000	Mining HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Capital additions *(note)*	–	925	–	–	3	928
Depreciation of property, plant and equipment	16,082	3,901	–	–	112	20,095
Amortisation of patents	3,484	–	–	–	–	3,484
Amortisation of mining license	–	–	–	12,636	–	12,636
Loss on disposal of property, plant and equipment	–	15	–	–	–	15
Impairment loss on property, plant and equipment	63,753	–	–	–	–	63,753
Impairment loss on intangible assets	23,516	–	–	–	–	23,516
Impairment loss on goodwill	27,085	–	–	–	–	27,085
Foreseeable loss on construction contract	–	–	16,865	–	–	16,865
Allowance for obsolete and slow moving inventories	–	694	–	–	–	694
Allowance on bad and doubtful debts, net	24,499	17,399	–	–	–	41,898
Impairment loss on advances to suppliers	–	6,997	3,805	–	–	10,802

7. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 March 2010

	Direct drinking water HK$'000	Purification equipment HK$'000	Environmental engineering HK$'000	Mining HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Capital additions *(note)*	19,154	6,421	–	153,008	9	178,592
Depreciation of property, plant and equipment	14,006	4,970	–	–	140	19,116
Amortisation of patents	18,800	–	–	–	–	18,800
Amortisation of mining license	–	–	–	4,528	–	4,528
Gain on disposal of property, plant and equipment	(1,733)	–	–	–	–	(1,733)
Impairment losses on intangible assets	45,694	–	–	–	–	45,694
Allowance on bad and doubtful debts, net	506	1,660	2,064	–	–	4,230
Recovery of on trade receivables written off	(2,059)	(2,917)	(4,320)	–	–	(9,296)

Note: Capital additions included additions to property, plant and equipment and intangible assets.

7. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are principally located in the PRC (country of domicile) and Kyrgyzstan.

In presenting geographical information, revenue is based on the geographical location of customers. Non-current assets are based on the geographical location of the assets.

For the year ended 31 March 2011

	The PRC HK$'000	Kyrgyzstan HK$'000	Total HK$'000
Revenue from continuing operations from external customers	**24,498**	**–**	**24,498**
Non-current assets (excluding financial instruments)	**16,281**	**131,770**	**148,051**

For the year ended 31 March 2010

	The PRC HK$'000	Kyrgyzstan HK$'000	Total HK$'000
Revenue from continuing operations from external customers	107,700	–	107,700
Non-current assets (excluding financial instruments)	149,576	146,851	296,427

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follow:

	2011 HK$'000	2010 HK$'000
Customer A *(Note)*	**4,489**	*
Customer B *(Note)*	**3,120**	*
Customer C *(Note)*	**2,485**	*
Customer D *(Note)*	**2,531**	*

Note: Revenue from lease of direct drinking water purification machines and royalty income for use of the Group's brand name.

* The corresponding revenue does not contribute over 10% of the total sales of the Group in the respective year.

8. OTHER INCOME, GAINS AND LOSSES

Continuing operations

	2011	2010
	HK$'000	HK$'0000
Bank interest income	**264**	134
Imputed interest income on interest-free instalment receivables	**–**	564
Gain on extension of non-interest bearing payable to a director of a subsidiary	**4,177**	–
Gain on disposal of property, plant and equipment	**–**	1,733
Government grant *(Note)*	**42**	789
Recovery of trade receivables written off	**–**	9,296
Gain on disposal of a subsidiary	**3**	–
Net exchange gain	**2,914**	159
Others	**278**	1,434
	7,678	14,109

Note: The amount represents the grants received from the relevant PRC government to encourage the development of advanced technology enterprises. The subsidies were unconditional and granted on a discretionary basis to the Group during the year.

9. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Interests on convertible bonds	**–**	2,241
Interest on borrowings wholly repayable within five years	**1,114**	1,091
	1,114	3,332

10. CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

On 24 December 2007, the Company issued zero coupon convertible bonds at par denominated in HKD in an aggregate principal amount of HK$124,500,000 to a substantial shareholder of the Company namely Long Grand Limited ("Subscription Bond") and HK$60,000,000 to outsiders ("Placing Bond") (collectively known as the "Convertible Bonds"). The Convertible Bonds would mature on the second anniversary of the date of issue of the Convertible Bonds, 24 December 2009. The Convertible Bonds entitled the holders to convert them into ordinary shares ("Conversion Shares") of the Company at any time between the date of issue of the Convertible Bonds and their maturity date on 24 December 2009 at a conversion price of HK$0.15 per share subject to adjustments for subdivision or consolidation of shares, bonus issues, rights issues, distributions and other dilutive events.

10. CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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

As a result, the embedded derivatives of the Convertible Bonds were stated at fair value which comprises:

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

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

On 14 May 2009, 400,000,000 Conversion Shares at the conversion price of HK$0.15 were issued to the Convertible Bonds holders upon their conversion of the Placing Bond in the aggregate principal amount of HK$60,000,000. In addition, 400,000,000 Conversion Shares at the conversion price of HK$0.15 were issued to Long Grand Limited upon its conversion of the Subscription Bond in the principal amount of HK$60,000,000 on 14 May 2009. In accordance with the terms and conditions of Placing Bond and the Subscription Bond, upon exercising the conversion rights attaching to the Placing Bond and the Subscription Bond on 14 May 2009, on the same day, the Company issued by way of bonus 100,000,000 Warrants to Long Grand Limited and an aggregate of 100,000,000 Warrants to holders of the Conversion Shares.

On 29 June 2009, 430,000,000 Conversion Shares at the conversion price of HK$0.15 were issued to Long Grand Limited upon their conversion of the Subscription Bond in the aggregate principal amount of HK$64,500,000. In accordance with the terms and conditions of the Subscription Bond, upon exercising the conversion rights attaching to the Subscription Bond on 29 June 2009, on the same day, the Company issued by way of bonus 107,500,000 Warrants to Long Grand Limited.

The fair value of the embedded derivatives of the Convertible Bonds at 14 May 2009 and 29 June 2009, the respective dates of conversion, was determined as:

(i) the fair value of the shares issued, which was determined with reference to the quoted share price of the Company quoted on the Stock Exchange of Hong Kong Limited; and

(ii) the fair value of Warrants issued. The Company had engaged BMI Appraisals Limited ("BMI"), an independent qualified professional valuer not connected with the Company, to assess the valuation so as to determine the fair values of Warrants. The fair value of the Warrants was determined by using Black-Scholes Option Pricing Model at respective dates of conversion.

As a result, the Group recognised changes in fair value of derivative financial instruments amounting to approximately HK$4,324,025,000 for the year ended 31 March 2010 (2011: Nil).

11. CHANGES IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITIES

As disclosed in note 10, the Company issued by way of bonus 100,000,000 Warrants to Long Grand Limited and an aggregate of 100,000,000 Warrants to the holders of the Placing Bonds upon their conversion of the Convertible Bonds on 14 May 2009. In addition, the Company issued by way of bonus 107,500,000 Warrants to Long Grand Limited upon its conversion of the Convertible Bonds on 29 June 2009 resulting in a total of 307,500,000 warrants issued after the full conversion of the Convertible Bonds.

Subsequently on 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK$0.001 each, respectively. Pursuant to the terms and conditions of the instrument dated 24 December 2007 constituting the Warrants, the subscription price of the Warrants was adjusted from HK$0.15 per ordinary share to HK$0.015 per subdivided share as a result of the share subdivision. On 31 July 2009, the number of shares of the Company to be issued upon exercise of the Warrants was also adjusted from 307,500,000 ordinary shares to 3,075,000,000 subdivided shares as a result of the share subdivision.

From 30 September 2009 to 27 November 2009, the Company allotted and issued 3,075,000,000 shares and received cash of HK$46,125,000 upon exercise of the Warrants issued during the year ended 31 March 2010.

The Company had engaged BMI, an independent qualified professional valuer not connected with the Company, to assess the fair values of the Warrants. The fair value of the Warrants was determined by using Black-Scholes Option Pricing Model.

The fair value of the Warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follow:

	27 November 2009	**20 November 2009**	**17 November 2009**	**12 November 2009**	**11 November 2009**	**6 November 2009**	**9 October 2009**	**30 September 2009**		**29 June 2009**	**14 May 2009**
	Lot 1 *(note)*	Lot 1 *(note)*	Lot 1 *(note)*	Lot 1 *(note)*	Lot 1 *(note)*	Lot 1 *(note)*	Lot 1 *(note)*	Lot 1 *(note)*	Lot 2 *(note)*	Lot 2 *(note)*	Lot 1 *(note)*
Exercise price	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015	HK$0.015
Share price	HK$1.06	HK$1.06	HK$1.11	HK$1.16	HK$1.11	HK$1.15	HK$1.14	HK$1.22	HK$1.22	HK$0.505	HK$0.185
Expected volatility	109.684%	108.844%	109.359%	108.047%	107.684%	106.804%	108.982%	112.644%	110.722%	118.579%	109.301%
Remaining life	5.5 months	5.8 months	5.9 months	6.0 months	6.0 months	6.2 months	7.1 months	8 months	9 months	1 Year	1 Year
Risk free rate	0.107%	0.108%	0.109%	0.093%	0.093%	0.103%	0.139%	0.18%	0.19%	0.11%	0.17%

Notes: Lot 1 and Lot 2 referred to the 2,000,000,000 Warrants and 1,075,000,000 Warrants issued on 14 May 2009 and 29 June 2009 (after adjustment for share subdivision), respectively, and the dates shown above represented the date of exercise of Warrants.

The movements of derivative warrant liabilities during the year ended 31 March 2010 was set out below:

	HK$'000
At 1 April 2009	–
Fair value of warrants granted during the year	867,233
Change in fair value	2,727,689
Share issued upon exercise of warrants	(3,594,922)
At 31 March 2010	–

12. INCOME TAX CREDIT

	2011 HK$'000	2010 HK$'000
Continuing operations		
Current tax – PRC EIT	**54**	2,990
Deferred taxation *(note 29)*	**(6,750)**	(16,123)
	(6,696)	(13,133)

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the income of the Group neither arise in nor is derived from Hong Kong.

The Group's PRC EIT is calculated based on the applicable tax rate on assessable profits, if applicable.

The Group's PRC subsidiary, Shanghai Comfort Environment and Science Company Limited ("Shanghai Comfort"), which is registered in Shanghai Pudong New Area and regarded as advanced technology enterprises by local tax bureau. Shanghai Comfort is entitled to the PRC income tax at concessionary rate of 15% from year 2008 to 2010. The applicable EIT rate for the Group's other PRC subsidiaries is 25%.

The income tax credit for the year can be reconciled to the loss before taxation as follows:

	2011 HK$'000	2010 HK$'000
Loss before taxation:		
Continuing operations	**251,433**	7,121,431
Tax at the domestic income tax rate of 25% (2010: 25%)	**(62,858)**	(1,780,358)
Tax effect of income not taxable for tax purposes	**(1,996)**	(1,441)
Tax effect of expenses not deductible for tax purposes	**19,970**	1,772,918
Tax effect of deductible temporary differences not recognised	**29,287**	1,058
Tax effect of tax losses not recognised	**8,901**	184
Utilisation of tax losses previously not recognised	**–**	(5,387)
Income tax on concessionary rate	**–**	(107)
Income tax credit for the year	**(6,696)**	(13,133)

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

13. DISCONTINUED OPERATION

Due to the continuous adverse operating environment as a result of the economic downturn since the second half of year 2008, the Group had encountered significant difficulties in obtaining orders from customers for its garment business which had ceased to generate meaningful return to the Group. In light of this, the management had resolved to abandon the garment business of the Group and hence had ceased to accept any new garment trading business and had laid off all of the staffs within the garment business in July 2009. As the amount of assets employed in the garment business was not significant, the management did not consider the discontinuation of the garment business would have any material impact on the Group's financial result.

The results of the garment business, which were included in the consolidated statement of comprehensive expense for the year ended 31 March 2010, were as follows:

	2010 HK$'000
Other income	98
Administrative and other expenses	(185)
Loss for the year	(87)

Cash flows from discontinued operation:

	2010 HK$'000
Net cash outflows from operating activities	(7,197)

14. LOSS FOR THE YEAR

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

Continuing operations

	2011 HK$'000	2010 HK$'0000
Directors' emoluments *(note 14(a))*	**2,026**	2,983
Other staff costs	**11,738**	20,873
Other staff retirement benefit scheme contributions	**1,177**	1,649
Total staff costs	**14,941**	25,505
Auditor's remuneration	**1,550**	1,650
Depreciation of property, plant and equipment	**20,095**	19,116
Loss (gain) on disposal of property, plant and equipment	**15**	(1,733)
Amortisation of intangible assets included in administrative expenses	**16,120**	23,328
Cost of inventories recognised as expenses	**11,942**	39,651
Allowance for obsolete and slow-moving inventories	**694**	–
Foreseeable loss on construction contract recognised in cost of sales *(note 21)*	**16,865**	–
Allowance on bad and doubtful debts, net, recognised in administrative and other expenses *(note 22)*	**41,898**	4,230
Impairment loss on advances to suppliers recognised in administrative and other expenses *(note 22)*	**10,802**	–

14. LOSS FOR THE YEAR (Continued)

Continuing operations (Continued)

Notes:

(a) Information regarding directors' and employees' emoluments

The emoluments paid or payable to each of the five (2010: seven) directors are as follows:

	Executive Director		Independent non-executive director			
	Yuen Leong HK$'000	Luan Li HK$'000	Lam Man Kit Dominic HK$'000	Yap Yung HK$'000	Zhang Guang Sheng HK$'000	2011 Total HK$'000
Fees	–	–	200	200	200	600
Other emoluments						
Salaries and other benefits	600	600	–	–	–	1,200
Share-based payments	113	113	–	–	–	226
	713	713	200	200	200	2,026

	Executive Director		Independent non-executive director					
	Yuen Leong HK$'000	Luan Li HK$'000	Chen Ye HK$'000 *(Note)*	Chan Wai Dune HK$'000 *(Note)*	Lam Man Kit Dominic HK$'000	Yap Yung HK$'000	Zhang Guang Sheng HK$'000	2010 Total HK$'000
Fees	–	–	78	67	200	123	123	591
Other emoluments								
Salaries and other benefits	600	369	–	–	–	–	–	969
Share-based payments	601	–	221	–	601	–	–	1,423
	1,201	369	299	67	801	123	123	2,983

Note: These two directors resigned as directors of the Company during the year ended 31 March 2010.

14. LOSS FOR THE YEAR (Continued)

Continuing operations (Continued)

Notes: (Continued)

(b) Employees

The five highest paid individuals of the Group included one director (2010: two directors), whose emoluments are disclosed above. The emoluments of the remaining four (2010: three) highest paid employees are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and others	3,572	2,342
Share-based payments	501	2,672
Retirement benefit scheme contributions	36	36
	4,109	5,050

Their emoluments were within the following bands:

	2011 Number of employee	2010 Number of employee
HK$500,001 to HK$1,000,000	3	1
HK$1,000,001 to HK$1,500,000	1	1
HK$2,500,001 to HK$3,000,000	–	1

During the years ended 31 March 2011 and 2010, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during both years.

15. LOSS PER SHARE

From continuing and discontinued operations

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

	2011	2010
Loss		
Loss for the year attributable to owners of the Company for the purpose of loss per share	**HK$(243,150,000)**	HK$(7,107,864,000)
Number of shares		
Weighted average number of shares for the purpose of loss per share *(Note)*	**18,976,151,290**	15,135,319,749

Note: The weighted average number of shares for the purposes of basic and diluted loss per share includes the convertible preference shares (see Note 30) as they rank equally among themselves and pari passu with all other ordinary shares of the Company in issue with respect of the right to any dividends or distribution declared.

From continuing operations

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

	2011	2010
	HK$'000	HK$'000
Loss		
Loss for the year attributable to owners of the Company	**(243,150)**	(7,107,864)
Less: Loss for the year from discontinued operation	**–**	(87)
Loss for the purpose of basic and diluted loss per share from continuing operations	**(243,150)**	(7,107,777)

The denominators used are the same as those detailed above for basic and diluted loss per share from continuing and discontinued operations.

From discontinued operation

For the year ended 31 March 2010, basic and diluted loss per share from discontinued operation is approximately HK$ Nil per share, based on the loss for the year from discontinued operation of approximately HK$87,000, and the denominators detailed above for basic and diluted loss per share from continuing and discontinued operations.

The computation of diluted loss per share for both years does not take into account the effect of share options granted, the conversion of convertible bonds and the warrants issued by the Company as these would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Assets under construction HK$'000	Total HK$'000
Cost						
At 1 April 2009	111,681	2,594	759	2,096	1,734	118,864
Exchange adjustments	353	8	2	1	3	367
Additions	7,911	143	–	292	17,238	25,584
Disposals	(28,801)	(56)	–	–	–	(28,857)
Reclassification	18,975	–	–	–	(18,975)	–
At 31 March 2010 and 1 April 2010	110,119	2,689	761	2,389	–	115,958
Exchange adjustments	4,842	116	32	13	–	5,003
Additions	828	100	–	–	–	928
Disposals	–	–	(39)	–	–	(39)
At 31 March 2011	115,789	2,905	754	2,402	–	121,850
Depreciation and impairment						
At 1 April 2009	1,228	49	33	1,931	–	3,241
Exchange adjustments	30	1	–	–	–	31
Provided for the year	18,024	744	230	118	–	19,116
Eliminated on disposals	(1,892)	(29)	–	–	–	(1,921)
At 31 March 2010 and 1 April 2010	17,390	765	263	2,049	–	20,467
Exchange adjustments	1,204	50	15	4	–	1,273
Provided for the year	18,942	744	188	221	–	20,095
Impairment loss recognised *(Note)*	63,753	–	–	–	–	63,753
Eliminated on disposals	–	–	(19)	–	–	(19)
At 31 March 2011	101,289	1,559	447	2,274	–	105,569
Carrying values						
At 31 March 2011	14,500	1,346	307	128	–	16,281
At 31 March 2010	92,729	1,924	498	340	–	95,491

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

Note: Details of the impairment testing are set out in note 19.

17. INTANGIBLE ASSETS

The movements in intangible assets during the year is summarised as follows:

	Patents HK$'000 *(Note a)*	Mining license HK$'000 *(Note b)*	Total HK$'000
Cost			
At 1 April 2009	94,000	–	94,000
Acquisition of assets and liabilities *(note 33(b))*	–	153,008	153,008
Exchange adjustments	–	(1,629)	(1,629)
At 31 March 2010 and 1 April 2010	94,000	151,379	245,379
Exchange adjustments	–	(2,590)	(2,590)
At 31 March 2011	94,000	148,789	242,789
Amortisation and impairment			
At 1 April 2009	2,506	–	2,506
Amortisation	18,800	4,528	23,328
Impairment losses recognised	45,694	–	45,694
At 31 March 2010 and 1 April 2010	67,000	4,528	71,528
Exchange adjustments	–	(145)	(145)
Amortisation	3,484	12,636	16,120
Impairment losses recognised	23,516	–	23,516
At 31 March 2011	94,000	17,019	111,019
Carrying values			
At 31 March 2011	–	131,770	131,770
At 31 March 2010	27,000	146,851	173,851

17. INTANGIBLE ASSETS (Continued)

Notes:

a. The patents arose on acquisition of Park Wealth Group in relation to the design and production of direct drinking water purification machines which have finite useful lives. Such patents are amortised on a straight-line basis over the estimated useful life of approximately five years.

Details of impairment testing are set out in note 19.

b. The mining license represents exploration and evaluation assets which arose on acquisition of Eagle Mountain Holdings Limited and its subsidiaries (the "Eagle Mountain Group") in November 2009. At subsequent reporting periods, mining license is measured using the cost model subject to impairment.

The mining license cost is amortised on a straight line method until the end of the terms of the mining rights in 2021. The Group has an option to extend the mining license from 31 December 2021 for not more than 20 years in accordance with the local rules and regulations.

During the year, the mine with copper and gold mineral is still under exploration and evaluation stage, amortisation on the mining license is amortised under straight line method. Such mining license will be transferred to mining rights, another sub-category of intangible assets, when the technical feasibility and commercial viability of extracting the mineral resources in the mine are demonstrated. On the other hand, when it is established that the mining is not economically viable, the net carrying amount of the mining license will be written off. Amortisation will be provided to write off the cost of the mining rights using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining rights till all proven and probable mineral reserves have been depleted if the mining activity is carried out.

The directors of the Company are of the opinion, based on the latest feasibility study performed by the Group and also by reference to the valuation report prepared by BMI, there is no impairment on the mining license for the year ended 31 March 2011.

18. GOODWILL

	HK$'000
Cost	
At 1 April 2009 and 31 March 2010	27,085
Impairment loss recognised	(27,085)
At 31 March 2011	–

During the year ended 31 March 2011, the Group recognised an impairment loss of HK$27,085,000 in relation on goodwill arising on acquisition of the Park Wealth Group. Details of impairment testing are set out in note 19.

19. IMPAIRMENT TESTING ON DIRECT DRINKING WATER BUSINESS

At 31 March 2011, the directors determined that the direct drinking water purification machines included in the Group's property, plant and equipment and patents, which relate to the direct drinking water business ("Direct Drinking Water Unit"), were impaired such that an impairment loss of approximately HK$63,753,000 and HK$23,516,000 respectively have been recognised. The impairment loss is attributable to the reduction in the expected revenue of Direct Drinking Water Unit as the actual revenue did not turn out as previously expected. The recoverable amounts of the direct drinking water purification machines and patents have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 23.5%.

In addition to above, at 31 March 2011, management of the Company have performed a business valuation on the Direct Drinking Water Unit in order to estimate the recoverable amount of the Direct Drinking Water Unit based on value in use calculation. That calculation uses estimation of the cash flow projections based on financial budgets approved by management covering a 3-year period and a discount rate of 23.5%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the cash generating unit ("CGU") past performance and management's expectations for the market development. The carrying amount of goodwill as at 31 March 2011 allocated to this CGU is determined to be fully impaired with reference to the above valuation and the impairment loss was as a result of the reduction in the expected revenue of the Direct Drinking Water Unit since the actual revenue did not turn out as previously expected.

The impairment losses recognised during the period to reduce the carrying amounts of each class of assets to their recoverable amounts are as follows:

	HK$'000
Direct drinking water purification machines	63,753
Patents	23,516
Goodwill	27,085
	114,354

20. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Raw materials	**888**	1,876
Finished goods	**259**	72
	1,147	1,948

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

	2011 HK$'000	2010 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profit less recognised losses	**39,732**	45,215
Less: Progress billings	**(39,099)**	(36,168)
	633	9,047
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**1,556**	11,296
Amounts due to customers for contract work	**(923)**	(2,249)
	633	9,047

At 31 March 2011 and 2010, there were no retention monies held by customers for contract work performed. At 31 March 2011, advances received from customers for contract work amounted to approximately HK$1,636,000 (2010: HK$5,463,000) which were included in trade and other payables as the work has not been commenced.

During the year ended 31 March 2011, the Group recognised losses of approximately HK$16,865,000 (2010: Nil) in respect of contract costs incurred on certain projects. The directors of the Company reviewed the recoverable amounts of contract costs incurred and identified certain projects are unlikely to be completed in the foreseeable future due to the delay of construction work of relevant development projects in the PRC. In the opinion of directors of the Company, the amounts are unlikely to be recovered from its customers and accordingly, losses are recognised in full in the consolidated statement of comprehensive income.

22. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables *(Note a)*	**7,158**	14,312
Advances to suppliers *(Note b)*	**595**	21,637
Other receivables	**685**	1,180
Receivables in respect of sales of direct drinking water purification machines *(Note c)*	**–**	39,761
Prepayments and deposits	**1,887**	2,064
	10,325	78,954

22. TRADE AND OTHER RECEIVABLES (Continued)

	2011 HK$'000	2010 HK$'000
Analysis of trade and other receivables for reporting purposes as:		
– Non-current asset in respect of sales of direct drinking water purification machines which were classified as property, plant and equipment	–	14,168
– Non-current asset in respect of sales of direct drinking water purification machines which were classified as inventories	–	13,512
– Current asset	10,325	51,274
	10,325	78,954

Notes:

a. During the years ended 31 March 2011 and 2010, the Group sold purification equipments to certain independent third parties.

During the year ended 31 March 2011, the purchasers of the purification equipments defaulted in payment with reference to the credit period initially granted. The directors of the Company consider the recoverability of the aforesaid receivables are doubtful and accordingly the Group has made impairment loss amounting to approximately HK$10,690,000 (2010: HK$1,660,000).

b. The Group has paid deposits to certain suppliers for purchasing raw materials based on the anticipated need for the purification equipment. During the year ended 31 March 2011, the Group did not receive the raw materials on the agreed schedule from certain suppliers because of decreased need for the manufacturing of purification equipment. The directors of the Company consider the recoverability of the aforesaid advances are doubtful and accordingly the Group has made impairment loss amounting to approximately HK$10,802,000 (2010: Nil).

c. During the year ended 31 March 2010, the Group sold direct drinking water purification machines to certain independent third parties. The consideration was payable in interest free instalments over a period of five years.

During the year ended 31 March 2011, the purchasers of the direct drinking water purification machines defaulted in payment of the instalments. The directors of the Company consider the recoverability of the aforesaid receivables are doubtful and accordingly the Group has made full impairment loss amounting to approximately HK$31,208,000 (2010: Nil).

The following is an aged analysis of trade receivables of the Group net of allowance for doubtful debts presented based on invoice date at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0 to 30 days	2,636	11,496
31 to 90 days	1,098	1,970
91 to 180 days	68	6,658
181 to 365 days	1,782	7,415
Over 1 year	1,574	285
	7,158	27,824

22. TRADE AND OTHER RECEIVABLES (Continued)

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

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits of each customer. Limits attributed to customers are reviewed once a year. In determining the recoverability of a trade receivable, the Group considers changes in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due.

At 31 March 2011, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$3,424,000 (2010: HK$2,697,000) which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2011	2010
	HK$'000	HK$'000
91 to 180 days	**68**	37
181 to 365 days	**1,782**	2,375
Over 1 year	**1,574**	285
	3,424	2,697

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

	2011	2010
	HK$'000	HK$'000
Balance at beginning of the year	**5,919**	1,689
Impairment losses recognised	**53,565**	5,309
Impairment losses reversed	**(865)**	(1,079)
Balance at end of the year	**58,619**	5,919

At 31 March 2011, included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of approximately HK$58,619,000 (2010: HK$5,919,000). The debtors have defaulted in the scheduled payments after the due dates and the Group performed an assessment and concluded the chance of recovering the account receivables is low such that full impairment had been recognised in respect of these account receivables.

23. BANK BALANCES AND CASH

As at 31 March 2011, bank balances and cash comprise cash held by the Group and short-term bank deposits which carry prevailing market interest rate of 0.84% (2010: 0.31%) per annum with an original maturity of three months or less.

At the end of the reporting period, included in the bank balances and cash are following amount denominated in currency other than the functional currency of the respective group entity:

	2011	2010
	HK$'000	HK$'000
USD	**22,508**	23,932
HKD	**54,849**	53,322
	77,357	77,254

24. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	HK$'000
Trade payables	**11,108**	10,265
Bills payable	**–**	154
Other payables	**18,510**	7,348
Other tax payables	**16,328**	17,018
Receipt in advance from customers	**29,262**	8,250
Accruals	**2,426**	3,721
	77,634	46,756

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

The following is an aged analysis of trade payables and bills payable presented based on invoice date:

	2011	2010
	HK$'000	HK$'000
0 – 30 days	**171**	4,858
31 – 90 days	**2,719**	3,154
91 – 180 days	**452**	1,405
181 – 365 days	**4,154**	708
Over 1 year	**3,612**	294
	11,108	10,419

25. AMOUNT DUE TO A DIRECTOR OF A SUBSIDIARY

	2011 HK$'000	2010 HK$'000
Xiao Shu (肖述)	**20,061**	23,464
Analysis for reporting purposes as:		
Current liabilities	**–**	23,464
Non-current liabilities	**20,061**	–
	20,061	23,464

The amount represents advance from Xiao Shu which is non-trade nature. Xiao Shu is a director and former shareholder of a subsidiary of the Company.

As at 31 March 2010, the amount was unsecured, interest free and repayable on demand. Pursuant to the agreement entered into with Xiao Shu in March 2011, the advance from Xiao Shu will be repaid on 31 March 2014. Accordingly, this amount has been reclassified as non-current liability as at 31 March 2011.

The amount is recognised at amortised cost with effective interest rate of 6.65% (2010: nil) per annum. At the date of rescheduling of the advance repayment terms, the difference between the carrying amount and the present value of the aforesaid advance under the rescheduled terms amounting to HK$4,177,000 (2010: Nil) was included in other income as gain on extension of non-interest bearing payable to a director of a subsidiary.

26. BORROWINGS

	2011 HK$'000	2010 HK$'000
Unsecured borrowings	**9,498**	9,099
Analysis for reporting purposes as:		
Current liabilities	**–**	9,099
Non-current liabilities	**9,498**	–
	9,498	9,099

As at 31 March 2010, the amount represented unsecured fixed-rate loans with interest at 12% per annum from an independent third party ("Independent Third Party") with maturity due date in March 2011.

Pursuant to the supplementary agreement entered into with Independent Third Party in March 2011, the maturity due date is extended to 31 March 2014. Accordingly, this amount has been reclassified as non-current liability as at 31 March 2011.

27. WARRANTY PROVISION

	HK$'000
At 1 April 2009	950
Provided for the year	834
Amount utilised	(503)
At 31 March 2010 and 1 April 2010	1,281
Provided for the year	191
Amount utilised	(44)
At 31 March 2011	1,428

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

28. DEFERRED INCOME

	Rental income HK$'000	**Royalty fee income** HK$'000	**Total** HK$'000
At 1 April 2009	33,039	–	33,039
Exchange adjustments	101	1	102
Additions	50,271	716	50,987
Released to revenue for the year	(44,346)	(143)	(44,489)
Released to other income for the year	(8,549)	–	(8,549)
At 31 March 2010 and 1 April 2010	30,516	574	31,090
Exchange adjustments	1,199	31	1,230
Additions	2,882	444	3,326
Released to revenue for the year	(8,803)	(178)	(8,981)
At 31 March 2011	25,794	871	26,665

	2011 **HK$'000**	2010 HK$'000
Analysed for reporting purposes as:		
Current portion	**9,304**	7,238
Non-current portion	**17,361**	23,852
	26,665	31,090

28. DEFERRED INCOME (Continued)

Deferred income includes: (a) rental received in advance for direct drinking water purification machines. The amount is released to profit or loss based on a straight line basis over the relevant lease terms which is on average around 3 years, and rental are fixed and pre-determined; and (b) royalty fees received in advance for the operation of the direct drinking water purification machines business in certain specific locations and within a specified time period. The amount will be released to profit or loss on a straight line basis over the relevant contract period.

29. DEFERRED TAXATION

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

	Revaluation of patents arising from acquisition of business HK$'000
At 1 April 2009	22,873
Credit to the profit or loss	(16,123)
At 31 March 2010 and 1 April 2010	6,750
Credit to the profit or loss	(6,750)
At 31 March 2011	–

At the end of the reporting period, the Group has the following unused tax losses that can be carried forward to future years. Their respective expiration years are as follows:

Expiry year	**2011** **HK$'000**	2010 HK$'000
2011	**–**	624
2012	**2,931**	2,931
2013	**14,298**	14,298
2014	**8,573**	8,573
2015	**749**	749
2016	**35,597**	–
No expiry	**39,475**	39,469
	101,623	66,644

At 31 March 2011, the Group has deductible temporary differences of approximately HK$121,377,000 (2010: HK$4,230,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

30. NON-VOTING CONVERTIBLE PREFERENCE SHARES

On 12 February 2009, the Group acquired the Park Wealth Group pursuant to the agreement dated 11 October 2008 (the "Agreement") entered into between Successtime Limited, a wholly owned subsidiary of the Company and the shareholders of Park Wealth International Limited comprising Sure Achieve Limited, Sureguide Limited and Teamwon Limited ("Vendors"). According to the Agreement, the Group should issue convertible preference shares to the Vendors for the acquisition for the Park Wealth Group within 10 business days of the finalisation of the audited consolidated net profit after tax of the Park Wealth Group for the year ended 31 December 2009.

In July 2010, the consideration for the acquisition of the Park Wealth Group and the aggregate fair value of the convertible preference shares was finalised to be HK$41,170,000, which was satisfied by the issuance of an aggregate of 214,637,160 convertible preference shares with a par value of HK$0.001 each (after adjustment for share subdivision) which can be converted into the Company's ordinary shares without maturity date. The convertible preference shares shall at all times rank equally among themselves and pari passu with all other ordinary shares of the Company in issue with respect of the right to any dividends or distributions declared.

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

The holder of each convertible preference shares shall not have any voting rights. The convertible preference shares shall be non-redeemable and will not be listed on any stock exchange.

The holders of the convertible preference shares shall be entitled to convert the convertible preference shares into ordinary shares in the following manner:

(i) Up to 40% of the convertible preference shares anytime during the period commencing from the first business day following the second anniversary of the date of completion of the agreement until the third anniversary of the date of completion of the Agreement;

(ii) Up to 70% of the convertible preference shares anytime during the period commencing from the first business day following the third anniversary of the date of completion of the agreement until the fourth anniversary of the completion of the Agreement;

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

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

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
At 1 April 2009 of HK$0.01 each	49,800,000,000	498,000
Share subdivision *(Note)*	448,200,000,000	–
At 31 March 2010 and 2011 of HK$0.001 each	498,000,000,000	498,000
Non-voting Convertible Preference Shares		
At 1 April 2009 of HK$0.01 each	200,000,000	2,000
Share subdivision *(Note)*	1,800,000,000	–
At 31 March 2010 and 2011 of HK$0.001 each	2,000,000,000	2,000
Issued and fully paid:		
At 1 April 2009 of HK$0.01 each	337,031,016	3,370
Conversion of convertible bonds into ordinary shares	1,230,000,000	12,300
Share subdivision *(Note)*	14,103,279,144	–
Shares issued on exercise of share options	6,000,000	6
Exercise of warrants	3,075,000,000	3,075
Issue of shares on acquisition of assets and liabilities *(Note 33(b))*	73,125,000	73
At 31 March 2010 and 2011 of HK$0.001 each	18,824,435,160	18,824
Non-voting convertible preference shares of HK$0.001 each *(Note 30)*		
Issued during the year and balance at 31 March 2011	214,637,160	41,170

Note: On 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary shares and Convertible Preference Shares into 10 subdivided ordinary shares and 10 subdivided Convertible Preference Shares of HK$0.001 each respectively.

32. CONTRIBUTED SURPLUS

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

33. ACQUISITION/DISPOSAL OF SUBSIDIARIES

(a) Disposal of a subsidiary

For the year ended 31 March 2011

On 23 March 2011, the Group disposed of its 100% equity interests in Shenzhen Kang Cheng He Air Purification Equipment Company Limited ("Shenzhen Kang Cheng He") to independent third parties for a consideration of approximately HK$617,000. Shenzhen Kang Cheng He was engaged in construction, installation of air purification and sewage treatment system.

	HK$'000
Consideration satisfied by:	
Consideration set off against payable to the purchaser *(note 34)*	617
Analysis of assets and liabilities over which control was lost:	
Other receivables	4
Amount due from a group company	610
Bank balances and cash	1
Trade and other payables	(1)
Net assets disposed of	614
Gain on disposal of a subsidiary:	
Consideration receivable	617
Net assets disposed of	(614)
Gain on disposal	3
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	1

The subsidiary disposed of did not contribute significantly to the Group's cash flows, revenue and profit from operations during the years ended 31 March 2011 and 2010.

33. ACQUISITION/DISPOSAL OF SUBSIDIARIES (Continued)

(b) Acquisition of assets and liabilities through acquisition of subsidiaries

For the year ended 31 March 2010

On 20 November 2009, Pride Delight Limited, a wholly-owned subsidiary of the Company, acquired the assets and liabilities of a mine with copper and gold mineral through the acquisition of 90% equity interests in Eagle Mountain Group from an independent third party ("Vendor") at a consideration of approximately HK$139,913,000, of which approximately HK$77,513,000 was satisfied by the allotment and issue of 73,125,000 shares of the Company ("Consideration Shares") to the Vendor at the market price of HK$1.06 at date of completion, and HK$62,400,000 was satisfied by the payment of cash.

The above transaction was accounted for as purchase of assets and liabilities as the Eagle Mountain Group did not have any business activities except for holding an undeveloped mining license at acquisition date. Details of the net assets acquired in respect of the above transaction were summarised below:

	HK$'000
Consideration transferred:	
Cash	62,400
Consideration Shares	77,513
	139,913

	HK$'000
Assets and liabilities recognised at the date of acquisition are as follow:	
Intangible assets	153,008
Bank balances and cash	337
Other payables	(7,072)
	146,273
Non-controlling interests	(6,360)
Total consideration	139,913
Net cash outflow arising on acquisition	
Cash consideration paid	(62,400)
Bank balances and cash acquired	337
	(62,063)

34. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2011, the Group disposed of its 100% equity interests in Shenzhen Kang Cheng He at a consideration of appropriate HK$617,000. The consideration was set off against other payable to the purchaser by the Group.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group made minimum lease payments of approximately HK$2,845,000 (2010: HK$2,605,000) under operating leases during the year in respect of rented premises and office equipments.

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

	2011		2010	
	Rented premises HK$'000	**Office equipment HK$'000**	Rented premises HK$'000	Office equipment HK$'000
Within one year	**2,349**	**16**	1,550	16
In the second to fifth years inclusive	**1,857**	**14**	87	30
	4,206	**30**	1,637	46

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

The Group as lessor

The Group received minimum lease payments of approximately HK$11,928,000 (2010: HK$25,380,000) under operating leases during the year in respect of certain direct drinking water purification machines. In addition, the Group also has arrangement with the lessees of the direct drinking water purification machines whereby the rental is charged based on the volume of water purified. During the year ended 31 March 2010, the contingent rental income amounted to approximately HK$18,966,000 (2011: Nil).

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments:

	2011 HK$'000	2010 RMB'000
Within one year	**12,500**	37,232
In the second to the fifth year inclusive	**21,875**	–
	34,375	37,232

Leases are negotiated for an average term of 3 years with fixed rentals.

36. SHARE OPTION SCHEME

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

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

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

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

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

On 31 July 2009, a special resolution was passed by the shareholders of the Company to approve the subdivision of the issued and unissued ordinary Shares and convertible preference shares into 10 subdivided ordinary shares and 10 subdivided convertible preference shares of HK$0.001 each respectively. Pursuant to the terms and conditions of the Scheme and the requirements of Chapter 17 of the Listing Rules, the exercise price of the share options granted under the Scheme would be adjusted from HK$5.32 per ordinary share to HK$0.532 per subdivided share while the number of shares of the Company to be allotted and issued upon exercise of the subscription rights attaching to the share options would be adjusted from 8,400,000 ordinary shares to 84,000,000 subdivided ordinary shares as a result of the share subdivision. The total number of shares to be issued upon the exercise of all options granted under the Scheme is 66,000,000 as at 31 March 2011.

36. SHARE OPTION SCHEME (Continued)

Details of the share options granted, exercised, and lapsed under the Scheme during the years ended 31 March 2011 and 2010 are as follows:

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting period	At 1 April 2010	Exercised during the year	Lapsed during the year	At 31 March 2011
Directors	17 July 2008	HK$0.532	7/17/2008 – 9/16/2014	N/A	6,000,000	–	–	6,000,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	6,000,000	–	6,000,000	
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	6,000,000	–	–	6,000,000
					18,000,000	–	–	18,000,000
Employees	17 July 2008	HK$0.532	7/17/2008 – 9/16/2014	N/A	15,999,980	–	–	15,999,980
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	16,000,010	–	–	16,000,010
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	16,000,010	–	–	16,000,010
					48,000,000	–	–	48,000,000
Exercisable at the end of the year								66,000,000
Weighted average share price at date of exercise								N/A

Category of Grantee	Date of grant	Exercise price per share	Exercisable period	Vesting period	At 1 April 2009	Exercised during the year	Lapsed during the year	At 31 March 2010
Directors	17 July 2008	HK$0.532	7/17/2008 – 9/16/2014	N/A	12,000,000	(3,000,000)	(3,000,000)	6,000,000
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	12,000,000	(3,000,000)	(3,000,000)	6,000,000
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	12,000,000	–	(6,000,000)	6,000,000
					36,000,000	(6,000,000)	(12,000,000)	18,000,000
Employees	17 July 2008	HK$0.532	7/17/2008 – 9/16/2014	N/A	15,999,980	–	–	15,999,980
			7/17/2009 – 9/16/2014	7/17/2008 – 7/16/2009	16,000,010	–	–	16,000,010
			7/17/2010 – 9/16/2014	7/17/2008 – 7/16/2010	16,000,010	–	–	16,000,010
					48,000,000	–	–	48,000,000
Exercisable at the end of the year								43,999,990
Weighted average share price at date of exercise								1.22

During the year ended 31 March 2011, the Group recognised a total share-based compensation expense of HK$827,000 (2010: HK$4,629,000) in relation to share options granted by the Company.

37. RETIREMENT BENEFIT SCHEMES

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

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

38. RELATED PARTY TRANSACTIONS

Other than the conversion of convertible bonds and warrants disclosed in notes 10, 11 and 25, the Group has the following transactions with related parties during the year:

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011	2010
	HK$'000	HK$'000
Short-term benefits (including share option expenses)	**6,099**	7,997
Retirement benefits scheme contribution	**36**	36
	6,135	8,033

The remuneration of key management is determined having regard to the performance of individuals and market trends.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2011 %	2010 %	Principal activities	Legal from
Directly held						
Surplus Rich Investments Limited	The BVI Hong Kong	US$1	**100**	100	Management service to group companies	Private limited liability company
Successtime Limited	The BVI Hong Kong	US$1	**100**	100	Investment holding	Private limited liability company
Indirectly held						
Park Wealth International Limited	The BVI Hong Kong	US$1	**100**	100	Investment holding	Private limited liability company
Eagle Mountain Holdings Limited	The BVI Hong Kong	US$100	**90**	90	Investment holding	Private limited liability company
Tunlin Limited Liability Company	Republic of Kyrgyzstan	KGS5,000	**90**	90	Investment holding	Limited liability company
Kichi-Chaarat Closed Joint Stock Company	Republic of Kyrgyzstan	KGS10,000	**90**	90	Mining, processing and sales of gold and copper	Limited liability company
上海康福特環境科技有限公司 Shanghai Comfort Environment and Science Company Limited*	The PRC	RMB46,000,000	**100**	100	Manufacturing and sales of air purification and water purification equipments, construction and installation of air purification and sewage treatment system	Limited liability company
上海康福特水業發展有限公司 Shanghai Comfort Water Development Company Limited*	The PRC	RMB3,000,000	**100**	100	Leasing of direct drinking water purification machines and water purification service, sales of air purification and water purification equipments	Limited liability company

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2011 %	2010 %	Principal activities	Legal from
成都康福特水業有限責任公司 Chengdu Comfort Water Company Limited*	The PRC	RMB500,000	**100**	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company
深圳康福特環保技術發展有限公司 Shenzhen Comfort Environment Protection Technology Development Company Limited*	The PRC	RMB1,000,000	**100**	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company
上海康福特環保工程安裝有限公司 Shanghai Comfort Environment Engineering Company Limited*	The PRC	RMB5,100,000	**100**	100	Construction and installation of air purification and sewage treatment system	Limited liability company
上海康福特淨水有限公司 Shanghai Comfort Jing Shui Company Limited*	The PRC	RMB100,000	**100**	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company
北京康福特康潔水業有限公司 Beijing Comfort Kang Jie Water Company Limited*	The PRC	RMB500,000	**100**	100	Leasing of direct drinking water purification machines and water purification service	Limited liability company

* The English name is for identification purpose only.

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

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

40. FINANCIAL INFORMATION OF THE COMPANY

ASSETS AND LIABILITIES

	2011 HK$'000	2010 HK$'000
Non-current assets		
Property, plant and equipment	**1**	3
Investments in subsidiaries	**44,620**	327,869
	44,621	327,872
Current assets		
Other receivables	**1,646**	1,492
Banks balances and cash	**55,100**	73,406
	56,746	74,898
Current liabilities		
Other payables	**1,752**	1,845
Amounts due to subsidiaries	**162**	162
	1,914	2,007
Net current assets	**54,832**	72,891
	99,453	400,763
Capital and reserves		
Share capital	**18,824**	18,824
Reserves	**80,629**	381,939
	99,453	400,763

Five Years Financial Summary

RESULTS

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Turnover	**24,498**	107,700	60,533	178,096	161,850
(Loss) profit before taxation	**(251,433)**	(7,121,518)	(53,164)	13,669	15,897
Income tax credit (expenses)	**6,696**	13,133	627	(1,426)	(1,341)
(Loss) profit for the year	**(244,737)**	(7,108,385)	(52,537)	12,243	14,556
Attributable to					
Owners of the Company	**(243,150)**	(7,107,864)	(52,537)	12,243	14,556
Non-controlling interests	**(1,587)**	(521)	–	–	–
	(244,737)	(7,108,385)	(52,537)	12,243	14,556

ASSETS AND LIABILITIES

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Total assets	**242,553**	472,243	415,978	307,795	104,896
Total liabilities	**(138,717)**	(123,458)	(343,510)	(237,872)	(18,457)
	103,836	348,785	72,468	69,923	86,439
Equity attributable to owners of the Company	**99,453**	342,899	72,468	69,923	86,439
Non-controlling interests	**4,383**	5,886	–	–	–
	103,836	348,785	72,468	69,923	86,439