HUA XIA HEALTHCARE HOLDINGS LIMITED

華夏醫療集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8143)

2006/2007
ANNUAL REPORT

* For identification purpose only

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

Contents

EXECUTIVE DIRECTORS
Yung Kwok Leong *(Chairman)*
Shum Ngai Pan *(the chief executive officer)*
Chen Jin Shan
Weng Jiaxing
Jiang Tao

NON-EXECUTIVE DIRECTOR
Wong Yu Man, James

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chan Francis Ping Kuen
Hsu William Shiu Foo
Yu Chai Mei

COMPLIANCE OFFICER
Yung Kwok Leong

AUTHORISED REPRESENTATIVES
Yung Kwok Leong
Shum Ngai Pan

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Chan Siu Wing Raymond, *CPA, CPA (Australia)*

AUDIT COMMITTEE
Chan Francis Ping Kuen
Hsu William Shiu Foo
Yu Chai Mei

REMUNERATION COMMITTEE
Chan Francis Ping Kuen
Hsu William Shiu Foo
Yu Chai Mei

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STOCK CODE
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WEBSITE
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Chairman's Statement

For and on behalf of the board of directors (the "Board") of Hua Xia Healthcare Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2007.

FINANCIAL OVERVIEW

Attributable to the fast economic growth and growth in demand for healthcare and hospital management services in the People's Republic of China (the "PRC"), the Group's revenue has reached a record high of approximately HK$77.52 million for the year ended 31 March 2007, representing an increase of approximately 89% as compared to a turnover of approximately HK$41.09 million for the previous year. Profit from operations has reached approximately HK$9.05 million and net profit attributable to the equity holders of the Group has reached approximately HK$5.98 million.

As we believe the potential for healthcare development in the PRC is enormous, our business development in the healthcare related sectors in the PRC is proven on the right track. In order to raise funds to enhance the Group's working capital and strengthen its capital base and financial position in furtherance of the Group's business plans, including future investments in the healthcare sector in the PRC and other business when they arise, during the past 12 months and up to the date of this report, the Company has conducted the following fund raising activities:

(i) A private placing of 103,414,000 non-listed warrants at an issue price of HK$0.02 per warrant as stated in the announcement of the Company dated 22 May 2006. The net proceeds of approximately HK$1.80 million were intended to be used for general working capital of the Group. The Company has applied, as intended, approximately HK$1.80 million towards general working capital of the Group;

(ii) An open offer of 355,523,083 offer shares at HK$0.08 per offer share on the basis of one offer share for every two shares held on the record date payable in full on application which has become unconditional on 12 February 2007. The net proceeds of the open offer were approximately HK$26.44 million, of which approximately HK$23.44 million were used, as intended, to finance investments in the healthcare sector in Hong Kong and the PRC, including but not limited to, the payment of the considerations relating to the formation of joint ventures with Town Health International Holdings Company Limited for operating dental services and beauty services as announced by the Company on 19 October 2006, partial payment of acquisition of the equity interest in Hero Vision Enterprises Limited, which in turn holds indirectly 55% equity interest in Chongqing Edward Hospital Company Limited and approximately HK$3.0 million towards general working capital of the Group;

(iii) A placing of 200,000,000 new shares at the issue price of HK$0.352 per share as stated in the announcement of the Company dated 20 March 2007. The net proceeds of approximately HK$67.9 million were intended to be used for settlement of the subscription price for new equity interest in Hero Vision Enterprises Limited, finance future investments in the healthcare sector in the PRC and general working capital of the Group. The placing was completed on 24 April 2007. As at 17 May 2007, approximately HK$41.0 million has been applied, as intended, as part of the consideration for the said acquisition and approximately HK$7.0 million has been used, as intended, to finance the Group's development in the healthcare related business in the PRC. The Company intends to apply the remaining approximately HK$19.9 million of unused proceeds for future investments in the healthcare sector in the PRC and for general working capital of the Group; and

(iv) On 15 May 2007, the Company entered into a placing agreement with the placing agent in relation to the placing of not more than 256,000,000 shares at an issue price of HK$0.58 per share. The net proceeds from the placing were approximately HK$142.0 million. The Company intends to apply approximately HK$137.0 million of the net proceeds for future investments in the healthcare sector in the PRC and approximately HK$5.0 million for general working capital of the Group. The placing was completed on 28 May 2007.

OPERATION OVERVIEW

In the year of 2006 and up to the date of this report, the Group endeavored to push ahead on the new strategy by transforming the Group from the core business of environmental protection services to the provision of healthcare and hospital management services in the PRC. In addition, the Group intended to seek possible future investments in or co-operations with hospitals in the PRC (including but not limited to taking the equity interests in hospitals in the PRC which we believe will have growth potential) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the acquisition in order to benefit from the healthcare sector and enhance shareholders returns in the long-run.

On 12 July 2006, the Board has passed the special resolution at the extraordinary general meeting to approve the change of Company's name from "Grandy Corporation" to "Hua Xia Healthcare Holdings Limited." The change of name has marked the milestone for the Group's business development in the healthcare and hospital management services in the PRC.

On 12 July 2006, the Company announced the entering into of a non-legally binding letter of intent with Ms. Zhuang Yan Qiu for the proposed acquisition of equity interest in a hospital located in Shanghai, the PRC. Such letter of intent had lapsed on 31 March 2007, as no legally-binding formal agreement had been reached between the parties thereto and the earnest money has been refunded to the Company in full in April 2007.

On 19 October 2006, the Company jointly announced with Town Health International Holdings Company Limited that the Company entered into the non-legally binding letter of intent with an objective to leveraging the resources and expertise of Town Health International Holdings Company Limited for cooperative development in the medical and healthcare related business in the PRC. A formal agreement between the Company and Town Health International Holdings Company Limited on cooperation of setting up a joint venture company for the provision of dental care services has been entered into on 5 January 2007 and the Company has injected approximately HK$3.0 million as working capital for the joint venture company on 2 April 2007.

On 24 November 2006, the Group has completed the acquisition of Day View Group Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support.

Chairman's Statement

On 24 November 2006, the Company entered into a non-legally binding letter of intent with Mr. Lin Guo Xiong and Fuzhou Taijiang Hospital Company Limited for the proposed acquisition of equity interest in a hospital in Fuzhou, the PRC, the long-stop date of such letter of intent had been extended to 30 June 2007 by mutual agreement of the parties thereto, as additional time is required for negotiation on the terms of the proposed acquisition.

On 13 March 2007, a wholly-owned subsidiary of the Company, Wisdom Rise Group Limited, entered into an agreement with an independent third party to acquire the entire issued share capital of Hero Vision Enterprises Limited which indirectly holds a 55% equity interest of Chongqing Edward Hospital Company Limited, a privately-run hospital established in Chongqing, the PRC. The acquisition was made in furtherance of the business plan of the Group in developing its presence in the healthcare sector in the PRC. The total consideration amounted to approximately HK$157.30 million. The acquisition was completed on 9 May 2007 and Chongqing Edward Hospital Company Limited has become a subsidiary of the Group.

On 24 April 2007, the Company entered into a letter of intent with an independent third party in relation to the proposed acquisition of whole or part of the equity interests in Karise Development Limited. Karise Development will indirectly be interested in Beijing Wuzhou Female Hospital upon completion of the reorganization. Beijing Wuzhou Female Hospital is a privately-run hospital established in the PRC which provides general hospital services including cosmetic surgery, obstetrics and gynaecology, otolaryngology, stomatology, oncology and Chinese herbal medicine treatment etc. in Beijing, the PRC. The long-stop date of such letter of intent will be expired on 30 June 2007.

The year under review is a year full of developments within the Group. Our Group has been deploying resources effectively in launching new products and services, identifying new business partners as well as other investment opportunities aiming at improving both the Group's earning base and asset base.

APPRECIATION

I would like to thank our management team and all our staff for their untiring efforts and significant contribution during the past year. I would also like to take this opportunity to express my sincere gratitude and appreciation to all our fellow shareholders and institutional investors for their continuous support and confidence in our Group.

Yung Kwok Leong
Chairman

Hong Kong, 26 June 2007

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

Summary of the results of the Group for the financial year ended 31 March 2007 is as follows:

- Turnover was approximately HK$77.52 million, representing an increase of approximately 89% as compared to a turnover of approximately HK$41.09 million for the previous year.
- Gross profit was approximately HK$41.69 million, representing an increase of approximately 91% as compared to a gross profit of approximately HK$21.81 million for the previous year.
- Net Profit attributable to equity holders was approximately HK$5.98 million, representing an increase of profitability of approximately 87% as compared to a net profit attributable to equity holders of approximately HK$3.19 million for the previous year.
- The Board does not recommend the payment of a final dividend for the year ended 31 March 2007 (2006: Nil).

BUSINESS REVIEW

The Group is principally engaged in the provision of healthcare and hospital management services in the PRC. In addition, it is engaged in the manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products.

Results of the Group for the year ended 31 March 2007 have shown improvement in turnover compared with the previous year. Turnover of the Group for the year was approximately HK$77.52 million in comparison with HK$41.09 million in 2006, representing an increase of approximately 89%. Profit from operations was approximately HK$9.05 million in comparison with HK$3.95 million in 2006, representing an increase of approximately 129%. Net profit attributable to equity holders for the year ended 31 March 2007 was HK$5.98 million in comparison with a net profit of HK$3.19 million in 2006, representing an increase of profitability of approximately 87%.

The improvement in revenue for the year ended 31 March 2007 was mainly driven by the contribution in turnover by the manufacture and sales of melamine and its related products and provision of hospital management services in the PRC. The turnover of these new lines of products and services represented approximately HK$54.96 million equivalent to approximately 70% of the Group's turnover for the year ended 31 March 2007.

Selling and distribution expenses for the year ended 31 March 2007 decreased by approximately 40% to approximately HK$1.20 million as compared to approximately HK$1.99 million for the corresponding period last year. The decrease was mainly attributable to the decrease in commission expenses associated with the sales of energy saving products.

Administrative expenses for the year ended 31 March 2007 amounted to approximately HK$30.07 million (2006: HK$18.41 million), representing an increase of approximately 63%. The increase was mainly due to the recognition of equity-settled share base payment of approximately HK$5.0 million (2006: Nil) in respect of the share options granted during the year. Adjusted for this non-cash flow expense, the administrative expenses increased by approximately 36% as a result of increase in professional expenses incurred for the rights issue and open offer, the acquisition of Day View Group Limited, and increase in the travelling expenses.

Management Discussion and Analysis

Business Review and Outlook

Waste water treatment businesses

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the year ended 31 March 2007 totalled approximately HK$21.92 million (2006: HK$15.55 million).

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks. The turnover for this division of business for the year ended 31 March 2007 recorded approximately HK$0.48 million (2006: HK$0.89 million). The Group has terminated this division of business since January 2007 due to the decrease of profitability.

Energy saving products and enzyme treatments

The Group's energy saving and enzyme treatment divisions recorded a total turnover of approximately HK$0.16 million for the year ended 31 March 2007 (2006: HK$6.77 million). The significant decrease in turnover was due to the fall in demand for the products. The Group has subcontracted these divisions of business to a local company in Hong Kong since April 2006.

Manufacture and sales of melamine and its related products

The Group manufactures and sells the melamine materials through its wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., in the Fujian Province, the PRC. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The Group also trades the household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The total turnover recorded in the sales of melamine materials and environmental friendly household products for the year ended 31 March 2007 was approximately HK$21.91 million (2006: HK$12.20 million).

Environmental protection consultancy and management services for hospitals

Since October 2005, the Group has entered into the service agreements with hospitals in the PRC to provide professional consulting services in the areas of environmental protection such as energy saving, waste water treatments, and improvement on the hospitals' air and water quality. The turnover recorded in these services for the year ended 31 March 2007 was approximately HK$2.0 million (2006: HK$2.58 million).

In addition to rendering environmental protection services for hospitals, the Group subcontracts its services to a hospital management company in the PRC to provide hospital management services. The turnover recorded in these services for the year ended 31 March 2007 was approximately HK$23.0 million (2006: HK$3.10 million).

On 24 November 2006, the Group has completed the acquisition of Day View Group Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the Day View Group Limited and its subsidiaries in these services for the year ended 31 March 2007 was approximately HK$8.06 million (2006: Nil).

Future Prospects

Under the environment of fast economic growth in the PRC and more people becoming aware of the importance of health, the directors believe that the healthcare market in the PRC provides abundant business opportunities for the Group in the future.

The directors intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the directors believe will have growth potentials) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had total cash and bank balances of approximately HK$24.76 million as at 31 March 2007 (2006: HK$8.99 million). The increase in cash and bank balances were mostly due to the completion of the open offer in February 2007 which raised in aggregate approximately HK$28.44 million for the Company. During the year, the Group paid approximately HK$20.00 million as cash consideration for the acquisition of 76% issued share capital of Day View Group Limited.

The Group recorded total current assets of approximately HK$110.81 million as at 31 March 2007 (2006: HK$42.55 million) and total current liabilities of approximately HK$35.92 million as at 31 March 2007 (2006: HK$11.09 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 3.09 as at 31 March 2007 (2006: 3.84).

ACQUISITION OF A SUBSIDIARY

During the year, the Group has acquired 76% issued share capital of Day View Group Limited which engages principally in the business of healthcare management and training and consultancy for hospitals located in the PRC. The total consideration of the acquisition comprising a combination of cash and shares of the Company was HK$96.86 million. Completion of this acquisition took place on 24 November 2006.

Details of this acquisition are disclosed in the Company's circular dated 28 July 2006 and note 34 to the financial statements on pages 89 and 91.

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 31 March 2007, the Group had no material contingent liabilities (2006: Nil).

FOREIGN EXCHANGE EXPOSURE

During the year, the Group experienced exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars, Korean Won and Renminbi. As the risk on exchange rate difference was considered to be stable, the Group did not employ any financial instrument for hedging purposes.

CHARGES ON GROUP ASSETS

Certain time deposits of the Group of HK$5.05 million have been pledged to banks to secure banking facilities and short-term bank loan granted to the Group. Secured short-term bank loan in the amount of HK$6.0 million was drawn down during the year.

SEGMENT INFORMATION

During the year, the revenue of the Group was principally generated from the manufacture, sales and consultancy of environmental protection products and services, and provision of healthcare and management services. Geographically, the Group has expanded business operations into Shanghai, the PRC in November 2006 through the acquisition of the non-wholly owned subsidiary, Day View Group Limited. Financial information in respect of these operations is presented in note 6 to the financial statements.

CAPITAL STRUCTURE

As at 31 March 2006, the total issued share capital of the Company was HK$17,246,517 divided into 344,930,333 ordinary shares of HK$0.05 each.

On 19 April 2006, the Company completed to issue 172,465,166 new ordinary shares by way of a rights issue on the basis of one rights share for every two existing shares of HK$0.05 each at a subscription price of HK$0.06.

On 19 April and 25 April 2006 respectively, 4,848,750 share options were exercised and 4,848,750 shares were issued and alloted.

On 12 July, 20 July and 16 October 2006, 11 January and 19 March 2007 respectively, a total of HK$15.50 million unlisted convertible notes had been converted into a total of 78,329,868 shares.

Pursuant to the acquisition of Day View Group Limited become unconditional on 21 November 2006, the Company allotted and issued 126,000,000 consideration shares to Mr. Wu Wendong, the ultimate controlling shareholder of Day View Group Limited.

On 14 February 2007, the Company completed to issue 355,523,083 new ordinary shares by way of the open offer on the basis of one offer share for every two existing shares of HK$0.05 each at a subscription price of HK$0.08 per offer share.

At at 31 March 2007, the total issued share capital of the Company was HK$54,104,860 divided into 1,082,097,200 ordinary shares of HK$0.05 each.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

EMPLOYEE INFORMATION

As at 31 March 2007, the Group had 156 (2006: 156) full time employees (including directors) as shown in the following table:

Location	Number of Staff
Hong Kong	15
Fujian	94
Shanghai	17
Korea	30

For the year ended 31 March 2007, staff costs (including directors emoluments) amounted to approximately HK$13.69 million (2006: HK$10.94 million). The increase of staff costs was due to the increase in salaries and allowances and the share-based payment expense during the year. The Group remunerates its employees based on individual performance and qualification. Apart from the basic remuneration, staff benefits include the contribution to the Mandatory Provident Fund Scheme, bonus and medical coverage in Hong Kong; and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to the employees in the PRC. The Group also adopted employee share option scheme to provide eligible employees a performance incentive for continuous and improved services with the Group and to enhance their contributions to increase profits by encouraging capital accommodation and share ownership.

Directors' and Senior Management's Profiles

EXECUTIVE DIRECTORS

Mr. Yung Kwok Leong, aged 42, the Chairman of the Board, being a registered economist in the Fujian Province in the PRC, has over 20 years' experience in corporate management and investment in the healthcare and environmental protection sectors in the PRC. Mr. Yung is currently the vice-chairman of the National Committee of the Health（全國衛生協會副理事長）and the Health Insurance Association of Fujian（福建省醫療保險協會副理事長）, Mr. Yung is also currently the committee member of Putian City, Fujian Committee of Chinese Political Consultative Conference（福建省莆田市政協委員）. Mr. Yung was appointed as an executive director of the Company and Chairman of the Board on 2 March 2005 and 29 April 2005 respectively.

Ms. Shum Ngai Pan, aged 34, holds a master degree in Business Administration. She has over 8 years of managerial experience in private companies engaged in the healthcare and environmental protection sectors in the PRC. Ms. Shum has been appointed as an executive director and chief executive officer of the Company on 25 April 2006 and 15 August 2006 respectively.

Mr. Chen Jin Shan, aged 39, holds a bachelor degree in finance and accounting. Mr. Chen has over 10 years of accounting experience in private companies. He had also been a project manager for more than 6 years in an accounting firm. Mr. Chen has been appointed as an executive director of the Company on 25 April 2006. He is currently an independent non-executive director of Citychamp Dartong Company Limited which is listed on the Shanghai Stock Exchange.

Mr. Weng Jiaxing, aged 31, holds a bachelor degree in finance. Mr. Weng has over 10 years of managerial experience in private companies engaged in merchandise trading and healthcare sector. Mr. Weng has been appointed as an executive director of the Company on 25 April 2006.

Dr. Jiang Tao, aged 51, holds a degree of Doctor of Audiology from the Arizona School of Health Sciences, Kirksville College of Osteopathic Medicine in the United States and two Masters degrees in Audiology and in Special Education from Lamar University of Texas in the United States. He served as senior management in several enterprises in USA, Canada and the PRC with over 15 years of experience in senior management, consultancy and investment in the PRC, Hong Kong, Canada and the United States, etc. Dr. Jiang has also established six enterprises in the PRC with Canadian capital. He is currently the Visiting Professor of the Medical College of Southwest of China, Sichuan University, Sun Yat-sen Medical University and Sichuan Foreign Language University. Dr. Jiang has been appointed as an executive director of the Company on 3 January 2007.

NON-EXECUTIVE DIRECTOR

Dr. Wong Yu Man, James, aged 53, holds degrees of Bachelor of Medicine and Bachelor of Surgery from the University of Hong Kong and the Doctorate of Medicine from Freiburg University in Germany. He has over 26 years of experience in medical and healthcare services in Hong Kong. Dr. Wong has been appointed as the non-executive director of the Company on 20 March 2007.

Directors' and Senior Management's Profiles

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Francis Ping Kuen, aged 48, was appointed as an independent non-executive director in September 2004. Mr. Chan is a member of the Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan holds a bachelor degree in economics from the University of Sydney. Mr. Chan has over 20 years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of companies listed in Hong Kong and in the United States.

Mr. Chan was previously an independent non-executive director of AGL MediaTech Holdings Limited and Kinetana International Biotech Pharma Limited, both companies are listed on GEM. Mr. Chan was also an executive director of Maxitech International Holdings Limited which is listed on GEM. Mr. Chan is currently an independent non-executive director of China Elegance (Holdings) Limited and Earnest Investments Holdings Limited which are both listed on the main board of the Stock Exchange.

Mr. Hsu William Shiu Foo, aged 56, was appointed as an independent non-executive director on 2 November 2001. Mr. Hsu is an Associate Professor at the School of Business at Brigham Young University, Hawaii. Mr. Hsu has over 15 years' global business experience in tourism and related fields in various international corporations. Mr. Hsu holds a bachelor of arts degree from the Brigham Young University, Hawaii, a master degree from Cornell University, New York, in the United States and a doctoral degree in business administration from the University of Western Sydney in Australia. Mr. Hsu was previously an independent non-executive director of Kinetana International Biotech Pharma Limited and is currently an independent non-executive director of KanHan Technologies Group Limited and MP Logistics International Holdings Limited, which are listed on GEM.

Prof. Yu Chai Mei, aged 51, was appointed as an independent non-executive director on 2 November 2001. Prof. Yu is a Professor in the Department of Chemistry and the Director of Studies in Environmental Science Programme of The Chinese University of Hong Kong. Prof. Yu possesses extensive knowledge in pollution treatment and environmental monitoring. Prof. Yu obtained his doctoral degree in Chemistry at the University of Idaho, in the United States. Prof. Yu has made contributions by advising the Group on development potentials of the technology in photocatalytic oxidation, an oxidation process that is catalysed under the supply of light source (UV light) ("PCO") and has helped the Group to carry out research on the functions of PCO reactors in the early stage of the Group's business development.

SENIOR MANAGEMENT

Mr. Chi Rui Xiong George, aged 40, holds a professional certificate of Chemistry Study. Mr. Chi is the Factory Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. He has more than 15 years of management experience in the manufacturing industry.

Ms. Liu Dan Sophy, aged 29, holds a bachelor's degree in Economics with major in accounting. Ms. Liu is the Finance Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. She has more than 4 years of accounting and audit experience.

Directors' and Senior Management's Profiles

Mr. Chan Siu Wing Raymond, aged 42, is the Financial Controller and Company Secretary of the Group. Mr. Chan is responsible for the Group's financial and treasury functions. Mr. Chan is a member of the Certified Practising Accountant in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has more than 16 years of experience in handling accounting and company secretarial functions and joined the Company in June 2005.

Mr. Kim Hyoung Kyu , aged 42, is the senior Finance Manager of the Korean operations. Mr. Kim is responsible for the financial functions of Youngdong. Mr. Kim graduated from Seoul National University and obtained a bachelor's degree in art from the department of international economics. Mr. Kim has over 12 years working experience in the areas of finance and asset management. Prior to joining the Group in June 2004, he worked in Hong Kong and Singapore.

Dr. Chen Jing, aged 44, is the Chief Operating Officer of the Group. Dr. Chen is responsible for the daily operation of hospital management and professional development of the Group. She is also responsible for various projects of developing healthcare services in the PRC. Dr. Chen obtained a bachelor's degree in medicine and a master degree in Business Administration. Being a lecturer of master degree students and associate director doctor, Dr. Chen is a committee member of Practising Certificate of National Doctor Examinations, and an expert in hospital grading. With 23 years of clinical experience and 9 years of healthcare management experience, Dr. Chen has been worked for various departments in the hospitals, including quality management, safety management, human resources, sales and marketing, and customer services. She is specialized in medical quality control tools such as PDCA cycle and clinical paths and has solid experience in modern hospital management.

Mr. Hu Tian Shun, aged 34, is the General Manager of the investment management division of the Group. Mr. Hu holds a master degree in Business Administration, and had worked for numerous prestigious corporations in the PRC, such as TCL. He is vastly experienced in investment management and sales and marketing.

Mr. Liu Zonghong, aged 33, is the assistant to the Chairman of the Board. Mr. Liu holds a master degree in Laws and is a practicing solicitor. He has over 5 years of work experience in the judicial department and is familiar with the PRC commercial laws, regulations and policy requirements. He is knowledgeable in the approval procedures of regulatory authorities, and has vast experience in corporation's merger and acquisition activities.

Mr. Lin Xiang, aged 32, is the Chief Financial Officer of Shanghai Humanity Hospital Management Company Limited, a non-wholly owned subsidiary of the Company. Mr. Lin has worked for a number of enterprises as accounting and finance managers. Mr. Lin holds a professional diploma in accounting and finance.

CORPORATE GOVERNANCE PRACTICES

Subject to the deviations as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximise the interests of shareholders during the year under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the year ended 31 March 2007.

BOARD OF DIRECTORS AND BOARD MEETING

The Board members for the year ended 31 March 2007 and up to date of this report were as follow:

Executive directors:

Mr. Yung Kwok Leong *(Chairman)*	
Mr. Chan Hon Chiu	(Resigned on 1 April 2006)
Mr. Yeung Kam Yan	(Resigned on 25 April 2006)
Ms. Shum Ngai Pan *(the chief executive officer)*	(Appointed on 25 April 2006)
Mr. Chen Jin Shan	(Appointed on 25 April 2006)
Mr. Weng Jiaxing	(Appointed on 25 April 2006)
Dr. Jiang Tao	(Appointed on 3 January 2007)

Non-executive director:

Dr. Wong Yu Man, James	(Appointed on 20 March 2007)

Independent non-executive directors:

Mr. Chan Francis Ping Kuen
Mr. Hsu William Shiu Foo
Prof. Yu Chai Mei

Corporate Governance Report

The Board is currently composed of five executive directors (including the Chairman), one non-executive director and three independent non-executive directors with a balance of skills and experience appropriate for the requirements of the Group. The Board is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transaction, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for the Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the Chairman of the Board and the other directors are set out on pages 12 and 13. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position as to carry out his or her duties effectively and efficiently. Mr. Yung Kwok Leong is the Chairman of the Board and an executive director of the Company. There is no relationship among the members of the Board.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of shareholders. All of them have been appointed as independent non-executive directors for a term of one year commencing 27 September 2004 and 10 May 2002 respectively and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association, provided that the appointment may be terminated by the Company or the independent non-executive director with a written notice of not less than one month unless both parties agree otherwise. Every director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The roles of the Chairman and chief executive officer are segregated and are not exercised by the same individual, the chairman is responsible for leading the Board in formulating overall strategies of the Company, while the chief executive officer is to manage the Group's business.

The Board held a regular board meeting for each quarter to consider and approve the Group's results announcement.

Details of the attendance of the meetings of the Board for the year ended 31 March 2007 and up to the date of this report were as follows:

Directors		Attendance
Mr. Yung Kwok Leong *(Chairman)*		1/4
Mr. Chan Francis Ping Kuen		3/4
Mr. Hsu William Shiu Foo		3/4
Prof. Yu Chai Mei		3/4
Mr. Chan Hon Chiu	(Resigned on 1 April 2006)	0/4
Mr. Yeung Kam Yan	(Resigned on 25 April 2006)	0/4
Ms. Shum Ngai Pan *(the chief executive officer)*	(Appointed on 25 April 2006)	2/4
Mr. Chen Jin Shan	(Appointed on 25 April 2006)	0/4
Mr. Weng Jiaxing	(Appointed on 25 April 2006)	0/4
Dr. Jiang Tao	(Appointed on 3 January 2007)	1/4
Dr. Wong Yu Man, James	(Appointed on 20 March 2007)	0/4

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required.

REMUNERATION OF DIRECTORS

The remuneration committee was established on 3 June 2005 in compliance with the code provision. The chairman of the committee is Mr. Chan Francis Ping Kuen, and other members include Mr. Hsu William Shiu Foo and Prof. Yu Chai Mei, all of them are the independent non-executive directors of the Company.

The role and function of the remuneration committee include the determination of the specific remuneration package of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of non-executive directors. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year, no meeting was held but resolutions in writing from the remuneration committee members were passed to consider and approve the emoluments of the new executive directors and non-executive director.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company.

The Board is empowered under the Company's Bye Laws to appoint any person as a director either to fill a casual vacancy or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

However, the Board will consider the formation of the nomination committee as and when appropriate.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors. During the year under review, the Group is required to pay an aggregate of approximately HK$0.58 million (2006: HK$0.40 million) to the external auditors for their services in audit. In addition, the Company was required to pay an aggregate of approximately HK$0.53 million to the external auditors for their works in connection with the acquisition of Day View Group Limited and open offer during the year.

AUDIT COMMITTEE

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports, quarterly reports and give advice and comments thereon to the directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises three members, including Mr. Chan Francis Ping Kuen, Mr. Hsu William Shiu Foo and Prof. Yu Chai Mei. All of them are the independent non-executive directors. The chairman of the audit committee is Mr. Chan Francis Ping Kuen.

The audit committee held four meetings during the year under review. Details of the attendance of the audit committee meetings for the year ended 31 March 2007 and up to the date of this report were as follows:

Members	Attendance
Mr. Chan Francis Ping Kuen	3/4
Mr. Hsu William Shiu Foo	3/4
Prof. Yu Chai Mei	3/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 March 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

INTERNAL CONTROL

The Board is responsible for maintaining the Group's internal control and for reviewing the effectiveness of these controls. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed.

In consideration of the size of the Group, the Board does not consider to establish an internal audit team at present. However, the key control procedure established by the Group is a day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal control described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;

– regular financial information provided to management for reviewing the Group's performance; and

– clearly defined management structure and lines of responsibility.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements, which give a true and fair view. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the directors and report the opinion solely to the shareholders of the Company.

Report of the Directors

The directors present their annual report and the audited financial statements of the Group for the year ended 31 March 2007.

DATE OF INCORPORATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 28 May 2001 under the Companies Law (Revised) of the Cayman Islands.

The shares of the Company were listed on the GEM of the Stock Exchange on 10 May 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are principally engaged in the provision of healthcare and hospital management services in the PRC, manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products. As detailed in note 42 of the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 8% of the Group's total sales and sales to the largest customer included therein amounted to approximately 3%.

The aggregate purchases during the year attributable to the Group's five largest suppliers were approximately 60% of the Group's total purchases and purchases from the largest supplier included therein amounted to approximately 20%.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2007 and the state of the Company's and the Group's affairs as at 31 March 2007 are set out in the financial statements on pages 31 to 34.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 16 to the financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out on page 74 and in note 17 to the financial statements and in the consolidated statement of changes in equity respectively.

The Company had distributable reserves of approximately HK$45.68 million as at 31 March 2007. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Yung Kwok Leong *(Chairman)*	
Mr. Chan Hon Chiu	(Resigned on 1 April 2006)
Mr. Yeung Kam Yan	(Resigned on 25 April 2006)
Ms. Shum Ngai Pan *(the chief executive officer)*	(Appointed on 25 April 2006)
Mr. Chen Jin Shan	(Appointed on 25 April 2006)
Mr. Weng Jiaxing	(Appointed on 25 April 2006)
Dr. Jiang Tao	(Appointed on 3 January 2007)

Non-executive director:

Dr. Wong Yu Man, James	(Appointed on 20 March 2007)

Independent non-executive directors

Mr. Chan Francis Ping Kuen
Mr. Hsu William Shiu Foo
Prof. Yu Chai Mei

In accordance with Article 87 of the Company's Articles of Association, Mr. Chan Francis Ping Kuen, the independent non-executive director, will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Article 86 of the Articles of Association, Dr. Jiang Tao and Mr. Yung Kwok Leung , the executive directors, Dr. Wong Yu Man, James , the non-executive director, will hold office until the conclusion of the annual general meeting and, being eligible, offer themselves for re-election.

Mr. Yung Kwok Leong, the executive director of the Company and chairman of the Board has signed a letter of appointment with the Company for a period of one year commencing from 1 February 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing have been appointed as executive directors by way of letters of appointment with the Company for a period of one year commencing from 25 April 2006 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Jiang Tao has been appointed as the executive director by way of letter of appointment with the Company for a period of one year commencing from 3 January 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Dr. Wong Yu Man, James, has been appointed as the non-executive director by way of a letter of appointment with the Company for a period of one year commencing from 20 March 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chan Francis Ping Kuen, an independent non-executive director, has been appointed by way of a letter of appointment with the Company for a period of one year commencing from 27 September 2004 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing. All the other independent non-executive Directors, namely Mr. Hsu William Shiu Foo and Prof. Yu Chai Mei, have entered into independent non-executive directors' contracts with the Company for a term of one year commencing from 22 April 2002 and will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Disclosure of Interests

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at 31 March 2007, the following directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

(i) Interests in Shares:

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued shares
Mr. Yung Kwok Leong	Corporate interest (Note)	264,206,000	Long	24.42%
	Personal interest	6,187,500	Long	0.57%
Ms. Shum Ngai Pan	Personal interest	5,400,000	Long	0.50%
Mr. Weng Jiaxing	Personal interest	5,625,000	Long	0.52%

Note: These shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.

(ii) Interests in Share Options:

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Kwok Leong	13 July 2006 to 12 July 2016	HK$0.627	3,242,085	Long
	21 March 2007 to 20 March 2017	HK$0.51	5,800,000	Long
Ms. Shum Ngai Pan	13 July 2006 to 12 July 2016	HK$0.627	3,705,240	Long
	21 March 2007 to 20 March 2017	HK$0.51	7,100,000	Long
Mr. Weng Jiaxing	13 July 2006 to 12 July 2016	HK$0.627	3,572,910	Long
	21 March 2007 to 20 March 2017	HK$0.51	7,200,000	Long
Mr. Chen Jin Shan	13 July 2006 to 12 July 2016	HK$0.627	6,881,160	Long
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000	Long
Dr. Jiang Tao	13 July 2006 to 12 July 2016	HK$0.627	6,881,160	Long
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000	Long

Save as disclosed above, as at 31 March 2007, none of the directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above under the heading "Directors' interests in shares, underlying shares and debentures", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or 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 and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

As at 31 March 2007, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Substantial Shareholders:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Easeglory Holdings Limited (Note 1)	264,206,000	Long	Beneficial owner	24.42
Ms. Yung Muk Ying (Note 1)	279,435,585	Long	Interest of spouse	25.82
Mr. Wu Wendong (Note 2)	146,000,000	Long	Beneficial owner	13.49
Mr. Lau Kam Shui (Note 3)	264,070,000	Long	Beneficial owner	24.40
Ms. Lau Yuk Lan (Note 3)	264,070,000	Long	Interest of spouse	24.40

Notes: 1. The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and the chairman of the Company. Ms. Yung Muk Ying is deemed to be interested in 264,206,000 Shares held by Easeglory Holdings Limited and 15,229,585 Shares and underlying Shares beneficially held by Mr. Yung Kwok Leong in personal capacity by virtue of her being the spouse of Mr. Yung Kwok Leong.

2. Mr. Wu Wendong is a director of three non-wholly owned subsidiaries of the Company.

3. Mr. Lau Kam Shui is interested in 264,070,000 Shares, being the aggregate of the consideration shares and the conversion shares under the SFO. Ms. Lau Yuk Lan is deemed to be interested in 264,070,000 Shares by virtue of her being the spouse of Mr. Lau Kam Shui.

Save as disclosed above, as at 31 March 2007, the directors were not aware of any other person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTIONS

Share Option Schemes

As at 31 March 2007, there were 157,609,382 outstanding share options, of which, 1,368,822 and 156,240,560 share options were granted pursuant to the respective Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. Details of the outstanding share options as at 31 March 2007 were as follows:

(i) Pre-IPO Scheme

As at 31 March 2007, there were 1,368,822 outstanding share options pursuant to the Pre-IPO Scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options and their respective exercise price, both of which have been adjusted as a result of the share consolidation, the rights issue and open offer, and their respective exercise period under the Pre-IPO Scheme is as follows:

	Exercise period	Exercise price	Number of share options outstanding
Former employee and advisor of the Company	25 April 2002 to 24 April 2012	HK$0.409	1,368,822

(ii) Post-IPO Share Option Scheme

On 12 July, 24 July 2006 and 21 March 2007 respectively, the Company passed board resolutions pursuant to the Post-IPO Scheme adopted on 20 April 2002 to grant a total of 156,240,250 share options to directors, consultants and employees of the Group. It was resolved that share options be offered to the directors, consultants and employees at the subscription price of HK$0.83, HK$0.82 and HK$0.51 per share respectively with a 10 year exercise period each commencing from 13 July, 24 July 2006 and 21 March 2007 respectively. The exercise price of the share options granted on 13 July and 24 July 2006 have been adjusted to HK$0.62 and HK$0.627 respectively as a result of the open offer become unconditional on 12 February 2007. A breakdown setting out the number of share options outstanding, their respective exercise price and exercise period is as follows:

	Exercise period	**Exercise price**	**Number of share options outstanding**
Mr. Yung Kwok Leong	13 July 2006 to 12 July 2016	HK$0.627	3,242,085
	21 March 2007 to 20 March 2017	HK$0.51	5,800,000
Ms. Shum Ngai Pan	13 July 2006 to 12 July 2016	HK$0.627	3,705,240
	21 March 2007 to 20 March 2017	HK$0.51	7,100,000
Mr. Weng Jiaxing	13 July 2006 to 12 July 2016	HK$0.627	3,572,910
	21 March 2007 to 20 March 2017	HK$0.51	7,200,000
Mr. Chen Jin Shan	13 July 2006 to 12 July 2016	HK$0.627	6,881,160
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000
Dr. Jiang Tao	13 July 2006 to 12 July 2016	HK$0.627	6,881,160
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK$0.627	15,416,445
	24 July 2006 to 23 July 2016	HK$0.62	16,541,250
	21 March 2007 to 20 March 2017	HK$0.51	72,100,000
Total			156,240,250

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 98. This summary does not form part of the audited financial statements.

COMPETING INTERESTS

None of the directors and management shareholders (as defined in the GEM Listing Rules), and their respective associates had any interest in business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

AUDITORS

The financial statements of the Company for the year ended 31 March 2007 were audited by HLB Hodgson Impey Cheng who will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment.

On Behalf of the Board

Yung Kwok Leong
Chairman

Hong Kong, 26 June 2007

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

TO THE SHAREHOLDERS OF
HUA XIA HEALTHCARE HOLDINGS LIMITED
(FORMERLY KNOWN AS GRANDY CORPORATION)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hua Xia Healthcare Holdings Limited (formerly known as Grandy Corporation) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 97, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

Independent Auditors' Report

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 26 June 2007

Consolidated Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**14,654**	14,585
Available-for-sale investments	8	**143**	138
Goodwill	11	**47,372**	1,893
		62,169	16,616
Current assets			
Inventories	14	**3,897**	3,250
Trade and other receivables	15	**77,104**	30,211
Pledged bank deposits	33	**5,048**	93
Cash and bank balances		**24,758**	8,992
		110,807	42,546
Total assets		**172,976**	59,162
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**54,105**	17,247
Reserves		**77,201**	13,735
		131,306	30,982
Minority interests		**3,421**	36
Total equity		**134,727**	31,018

Consolidated Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	18	**12,338**	9,591
Obligations under finance lease due within one year	19	**297**	111
Amounts due to directors	20	**736**	655
Amount due to minority shareholders	20	**15,323**	160
Secured short-term bank loan	21	**6,000**	–
Tax payable		**1,227**	568
		35,921	11,085
Long-term liabilities			
Convertible notes	22	**2,328**	16,762
Obligations under finance lease due after one year	19	**–**	297
		2,328	17,059
Total liabilities		**38,249**	28,144
Total equity and liabilities		**172,976**	59,162
Net current assets		**74,886**	31,461
Total assets less current liabilities		**137,055**	48,077

Approved by the Board on 26 June 2007 and signed on its behalf by:

Shum Ngai Pan
Director

Jiang Tao
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	13	**4,280**	–
Current assets			
Other receivables		**250**	53
Bank balances		**7,644**	38
Amounts due from subsidiaries	13	**104,442**	–
		112,336	91
Total assets		**116,616**	91
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**54,105**	17,247
Reserves	17	**54,033**	(34,494)
Total equity		**108,138**	(17,247)
LIABILITIES			
Current liabilities			
Accruals and other payables		**912**	576
Financial guarantee contract		**4,280**	–
Amounts due to subsidiaries	13	**958**	–
		6,150	576
Long-term liabilities			
Convertible notes	22	**2,328**	16,762
Total liabilities		**8,478**	17,338
Total equity and liabilities		**116,616**	91
Net current assets/(liabilities)		**106,186**	(485)
Total assets less current liabilities		**110,466**	(485)

Approved by the Board on 26 June 2007 and signed on its behalf by:

Shum Ngai Pan
Director

Jiang Tao
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	24	**77,521**	41,088
Cost of sales		**(35,831)**	(19,281)
Gross profit		**41,690**	21,807
Other revenue	24	**586**	40
Other income	25	**–**	3,465
Selling and distribution expenses		**(1,202)**	(1,986)
Administrative expenses		**(30,069)**	(18,408)
Impairment loss on goodwill		**(1,893)**	–
Provision for impairment on trade and other receivables		**(67)**	(964)
Profit from operations	25	**9,045**	3,954
Finance costs	28	**(949)**	(299)
Profit before taxation		**8,096**	3,655
Taxation	29	**(1,227)**	(561)
Profit for the year		**6,869**	3,094
Attributable to:			
Equity holders of the Company		**5,981**	3,191
Minority interest		**888**	(97)
		6,869	3,094
Dividends		**–**	–
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic	31	**HK 0.93 cents**	HK 0.73 cents
– diluted	31	**HK 0.71 cents**	HK 0.63 cents

All the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

At 31 March 2007

	Attributable to the equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Warrant reserve HK$'000 (Note (d))	Special reserve HK$'000 (Note (a))	Translation reserve HK$'000	Share-based payment reserve HK$'000	Convertible notes reserves HK$'000	Statutory enterprise expansion fund HK$'000 (Note (c))	Statutory surplus reserve HK$'000 (Note (b))	Accumulated losses HK$'000	Minority interests HK$'000	Total equity HK$'000
Total equity at 31 March 2005 and 1 April 2005, as restated	13,904	56,022	–	2,935	355	–	–	–	–	(54,220)	133	19,129
Exchange difference on translation of financial statements of overseas	–	–	–	–	98	–	–	–	–	–	–	98
Net income recognised directly in equity	–	–	–	–	98	–	–	–	–	–	–	98
Net profit for the year	–	–	–	–	–	–	–	–	–	3,191	(97)	3,094
Total income for the year	–	–	–	–	98	–	–	–	–	3,191	(97)	3,192
Issue of shares	2,780	–	–	–	–	–	–	–	–	–	–	2,780
Premium arising on issue of shares	–	4,448	–	–	–	–	–	–	–	–	–	4,448
Issuing expenses	–	(627)	–	–	–	–	–	–	–	–	–	(627)
Share-based payment expenses	–	–	–	–	–	449	–	–	–	–	–	449
Exercise of share options	563	336	–	–	–	(336)	–	–	–	–	–	563
Premium arising on exercise of share options	–	585	–	–	–	–	–	–	–	–	–	585
Equity component of convertible notes	–	–	–	–	–	–	499	–	–	–	–	499
Transfer to reserve	–	–	–	–	–	–	–	37	37	(74)	–	–
Total equity at 31 March 2006 and 1 April 2006	17,247	60,764	–	2,935	453	113	499	37	37	(51,103)	36	31,018
Exchange difference on translation of financial statements of overseas	–	–	–	–	1,154	–	–	–	–	–	–	1,154
Net income recognised directly in equity	–	–	–	–	1,154	–	–	–	–	–	–	1,154
Profit for the year	–	–	–	–	–	–	–	–	–	5,981	888	6,869
Total income for the year	–	–	–	–	1,154	–	–	–	–	5,981	888	8,023
Issue of shares	24,076	81,226	–	–	–	–	–	–	–	–	–	105,302
Rights issues	8,623	1,725	–	–	–	–	–	–	–	–	–	10,348
Issuing expenses	–	(2,753)	–	–	–	–	–	–	–	–	–	(2,753)
Share-based payment expenses	–	–	–	–	–	5,000	–	–	–	–	–	5,000
Exercise of share options	242	141	–	–	–	–	–	–	–	–	–	383
Transfer to share premium upon exercise of share options	–	113	–	–	–	(113)	–	–	–	–	–	–
Conversion of convertible notes	3,917	11,165	–	–	–	–	(430)	–	–	–	–	14,652
Issue of warrants	–	–	2,068	–	–	–	–	–	–	–	–	2,068
Issuing expenses of warrants	–	–	(231)	–	–	–	–	–	–	–	–	(231)
Increase in minority interest resulting from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	2,497	2,497
Special reserve arise on acquisition of a subsidiary	–	–	–	(41,580)	–	–	–	–	–	–	–	(41,580)
Transfer to reserve	–	–	–	–	–	–	–	112	112	(224)	–	–
Total equity at 31 March 2007	54,105	152,381	1,837	(38,645)	1,607	5,000	69	149	149	(45,346)	3,421	134,727

Consolidated Statement of Changes in Equity

At 31 March 2007

Notes:

(a) The special reserve amounting to approximately HK$2,935,000 of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.

The decrease in special reserve amounting to approximately HK$41,580,000 of the Group during the year represents the difference between the consideration paid and the goodwill and the carrying values of the underlying assets and liabilities attributable to the interest in a subsidiary acquired during the year (Note 34).

(b) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

(c) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall appropriate 5% to 10% of its net profit after taxation as the statutory enterprise expansion fund. The directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

(d) On 18 May 2006, the Company entered into conditional warrant placing agreements with two independent third parties, Triumph Sky Finance Limited and Happy Woodstock Limited, to issue 103,414,000 warrants at a price of HK$0.02 per warrant for cash consideration by way of a private placement. Each warrant entitles the holder to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.62 (subject to adjustment) from the date of issue to 4 December 2007. Any ordinary shares falling to be issued upon the exercise of the subscription right to the warrants will rank pari passu in all respects with the existing fully paid ordinary shares of the Company on the relevant subscription date. No warrant was exercised during the year ended 31 March 2007.

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**8,096**	3,655
Adjustments for:			
Interest income		**(503)**	(35)
Interest expenses		**949**	299
Impairment loss on goodwill		**1,893**	–
Bad debt recovered		**–**	(916)
Depreciation of property, plant and equipment		**2,262**	1,627
Exchange difference		**1,092**	(107)
Loss on disposal of property, plant and equipment		**317**	13
Impairment loss on property, plant and equipment		**23**	–
Provision for impairment of trade and other receivables		**67**	964
Provision for obsolete inventories		**66**	–
Reversal of trade payables		**–**	(2,285)
Reversal of provision for obsolete inventories		**–**	(254)
Share-based payment expenses		**5,000**	449
Operating cash inflows before movements in working capital		**19,262**	3,410
Increase in inventories		**(713)**	(623)
Increase in trade and other receivables		**(21,276)**	(11,479)
Increase in trade and other payables		**1,233**	3,248
Increase in amounts due to directors		**81**	–
Net cash used in operations		**(1,413)**	(5,444)
Overseas tax paid		**(581)**	(67)
Hong Kong Profits Tax refunded/(paid)		**13**	(151)
Net cash used in operating activities		**(1,981)**	(5,662)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**503**	35
Purchase of property, plant and equipment		**(1,620)**	(13,685)
Proceeds from disposal of property, plant and equipment		**322**	–
Net cash outflow from acquisition of a subsidiary		**(19,917)**	–
Increase in pledged bank deposits		**(4,955)**	(93)
Net cash used in investing activities		**(25,667)**	(13,743)

Consolidated Cash Flow Statement

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(732)**	(53)
Proceeds from issue of shares		**28,442**	7,228
Issue costs of shares		**(2,753)**	(627)
Proceeds from rights issue		**10,348**	–
Proceeds from exercise of share options		**383**	1,148
Borrowing from finance lease		**–**	408
Proceeds from issue of convertible notes		**–**	18,000
Issue costs of convertible notes		**–**	(827)
Proceeds from issue of warrants		**2,068**	–
Issue costs of warrants		**(231)**	–
Repayment of finance lease		**(111)**	(7)
Repayment to directors		**–**	(9)
Secured short-term bank loan		**6,000**	–
Net cash generated from financing activities		**43,414**	25,261
Net increase in cash and cash equivalents		**15,766**	5,856
Cash and cash equivalents at the beginning of the year		**8,992**	3,136
Cash and cash equivalents at the end of the year		**24,758**	8,992
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**24,758**	8,992

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the provision of healthcare and hospital management services in the PRC, manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products.

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

In the current year, the Group has applied, for the first time, a number of new standards amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The new HKFRSs adopted by the Group in the consolidated financial statements are set out as follows:

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

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

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that affected the amounts reported for the current or prior accounting periods:

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) Financial Guarantee Contracts which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 Financial Instruments: Recognition and Measurement as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 Insurance Contract and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

The Company has issued a corporate guarantee to a bank for bank borrowings for its subsidiaries. These guarantees are financial guarantee contracts as they require the company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

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

Financial guarantee contract – continued

The revised HKAS 39 has been applied retrospectively to financial guarantees existing as at 1 January 2005. The effects of adoption on the balance sheet of the Company at 31 March 2007 and 2006 are as follows:

	2007 HK$'000	2006 HK$'000
Increase in investment in subsidiaries	**4,280**	–
Increase in financial guarantee contract	**(4,280)**	–
	–	–

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – Int 8	Scope of HKFRS 2[4]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – Int 12	Service Concession Arrangements[8]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 January 2009*
[3] *Effective for annual periods beginning on or after 1 March 2006*
[4] *Effective for annual periods beginning on or after 1 May 2006*
[5] *Effective for annual periods beginning on or after 1 June 2006*
[6] *Effective for annual periods beginning on or after 1 November 2006*
[7] *Effective for annual periods beginning on or after 1 March 2007*
[8] *Effective for annual periods beginning on or after 1 January 2008*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange and by the Hong Kong Companies Ordinance.

A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

Basis of preparation

The measured basis used in the preparation of the financial statements is historical cost convention and modified the revaluation of available-for-sale financial assets, which are carried at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2007. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Business combinations

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

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or the relevant jointly controlled entity at the date of acquisition.

For previously, capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policies below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

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

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of environmental analyses, measurement and environmental protection services is recognised when the services are provided.

Revenue from provision of healthcare and hospital management services is recognised when the services are provided.

Revenue from installation of wastewater treatment system is recognised using the percentage of completion method, measured principally by the percentage of costs incurred to the total estimated cost to complete the contract.

Interest income is recognised on a time-proportion basis using effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance assets are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Plant and machinery	20%
Furniture, fixtures and equipment	20% to $33^1/_3$%
Motor vehicles	20%
Office equipment	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

Operation rights and intellectual property

Acquired operation rights and intellectual property are stated at cost less amortisation and any identified impairment loss. Amortisation is calculated on a straight-line basis over their estimated useful economic lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

Impairment of assets (other than goodwill, intangible assets with indefinite lives)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

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

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment losses were recognised, subject to a restriction that the carrying amount of the asset at the date the impairment losses reversed do not exceed what the amortised cost would have been had the impairment losses not been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories under HKAS 39. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in consolidated income statement. Any impairment losses on available-for-sale financial assets are recognised in consolidated income statement. Impairment losses on available-for-sale equity investments will not be reversed in subsequent years.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

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. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Convertible bond

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately in respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, respecting the embedded call option for the holder to convert the bond into equity, is included in equity (convertible bond – equity reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond – equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond – equity reserve will be released to the retained profits. No gain or loss is recognised in the consolidated income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transactions costs relating to the equity component are charged directly to convertible bond – equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Equity instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Company and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract.

Derecognition

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

Financial liabilities are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in consolidated income statement.

Foreign currencies

i. *Functional and presentation currency*

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company and the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

iii. Group companies

The results and financial positions of all the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate;

(b) Income and expenses are translated at average exchange rates; and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises of cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits

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

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the consolidated income statement as incurred.

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

iv. *Share-based payment expenses*

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the consolidated income statement in the period in which the costs are incurred.

Segments reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses, and corporate revenue.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(e) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(f) Measurement of convertible notes

On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

(g) Measurement of fair value of equity-settled transactions

The Company operates share option schemes under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, pledged bank deposits, cash and bank balances, trade and other payables, obligations under finance leases, bank borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group operates mainly in Hong Kong, the People's Republic of China (the "PRC") and the Republic of Korea and majority of transactions are dominated in Hong Kong dollars, Renminbi and Korean Won. Therefore, the Group is exposed to currency risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(a) Financial risk management objectives and policies – continued

Market risk – continued

(ii) Fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(iii) Price risk

The Group is not exposed to commodity price risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of the debtors at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(b) Fair value of financial instruments

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

i) the fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

ii) the fair value of other financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

iii) the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segments

The Group's operations are located in Hong Kong, the PRC and Korea, representing the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's geographical segment information.

	Turnover		Results	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,938**	12,614	**(244)**	5,812
PRC	**53,666**	12,919	**31,640**	8,211
Korea	**21,917**	15,555	**7,132**	8,299
	77,521	41,088	**38,528**	22,322
Unallocated other revenue			**586**	40
Unallocated corporate expenses			**(30,069)**	(18,408)
Profit from operations			**9,045**	3,954
Finance costs			**(949)**	(299)
Profit before taxation			**8,096**	3,655
Taxation			**(1,227)**	(561)
Profit for the year			**6,869**	3,094

	Segment assets		Segment liabilities	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**25,251**	27,079	**17,426**	3,976
PRC	**68,169**	18,102	**9,014**	3,686
Singapore	**–**	–	**200**	200
Korea	**2,378**	3,003	**2,156**	3,112
	95,798	48,184	**28,796**	10,974
Unallocated	**77,178**	10,978	**9,453**	17,170
	172,976	59,162	**38,249**	28,144

6. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Geographical segments – continued

Other information

	Capital additions		Depreciation and amortisation	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**120**	990	**348**	571
PRC	**2,683**	12,216	**1,523**	496
Korea	**270**	479	**391**	560
	3,073	13,685	**2,262**	1,627

	Loss on disposal of property, plant and equipment		Provision for impairment of trade and other receivables	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**317**	13	**67**	207
Korea	**–**	–	**–**	757
	317	13	**67**	964

6. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

Business segments

The Group is engaged in: (1) environmental and environmental-related businesses including (i) installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services, (ii) the manufacture and sales of environmental protection products; (2) manufacture and sales of melamine and its related products; (3) provision of healthcare and hospital management services.

	Manufacture and sales of environmental protection products		Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services		Manufacture and sale of melamine and its related products		Provision of healthcare and hospital management services		Unallocated		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue	**640**	8,682	**21,917**	25,164	**21,907**	7,242	**33,057**	–	**–**	–	**77,521**	41,088
Segment assets	**707**	2,604	**10,281**	20,819	**48,962**	19,286	**34,528**	–	**78,498**	16,453	**172,976**	59,162
Capital additions	**–**	501	**270**	479	**959**	12,216	**1,724**	–	**120**	489	**3,073**	13,685

7. PROPERTY, PLANT AND EQUIPMENT

The Group

	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost						
At 1 April 2005	268	701	1,156	433	2,042	4,600
Additions	137	455	12,205	596	292	13,685
Exchange difference	320	–	–	181	402	903
Disposals	–	–	–	–	(46)	(46)
At 31 March 2006 and at 1 April 2006	725	1,156	13,361	1,210	2,690	19,142
Additions	140	274	218	742	246	1,620
On acquisition of a subsidiary	317	625	–	410	101	1,453
Exchange difference	23	(5)	(599)	(8)	43	(546)
Disposals	–	(625)	(82)	(232)	(53)	(992)
At 31 March 2007	1,205	1,425	12,898	2,122	3,027	20,677
Depreciation and impairment						
At 1 April 2005	97	243	554	289	1,075	2,258
Provided for the year	267	217	524	142	477	1,627
Written back on disposals	–	–	–	–	(33)	(33)
Exchange difference	146	–	–	174	385	705
At 31 March 2006 and at 1 April 2006	510	460	1,078	605	1,904	4,557
On acquisition of a subsidiary	74	25	–	19	21	139
Provided for the year	132	252	1,178	252	448	2,262
Written back on disposals	–	(25)	(79)	(213)	(36)	(353)
Impairment loss	23	–	–	–	–	23
Exchange difference	20	–	(666)	12	29	(605)
At 31 March 2007	759	712	1,511	675	2,366	6,023
Net book values						
At 31 March 2007	**446**	**713**	**11,387**	**1,447**	**661**	**14,654**
At 31 March 2006	215	696	12,283	605	786	14,585

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was approximately HK$351,000 (2006: HK$449,000).

8. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2007 HK$'000	2006 HK$'000
Unlisted debt securities	**143**	138

9. INTEREST IN AN ASSOCIATE

	The Group	
	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**–**	–

Particulars of the Group's principal associates at 31 March 2007 are as follows:–

Name of associate	Place of incorporation/ registration	Percentage of equity interest attributable to the Group	Issued and fully paid share capital or registered capital	Principal activities
United First Investment Limited	British Virgin Islands	40%	100 shares of US$1 each	Provision of dental services

The summarised financial information in respect of the Group's associate is set out below:

	2007 HK$'000	2006 HK$'000
Total assets	**1**	–
Total liabilities	**(1)**	–
Net assets	**–**	–
Group's share of net assets of associates	**–**	–
Turnover	**–**	–
Profit for the year	**–**	–
Group's share of result of associates for the year	**–**	–

10. INTANGIBLE ASSETS

The Group

	Operation rights HK$'000	Intellectual property HK$'000	Organisation costs HK$'000	Total HK$'000
Cost				
At 1 April 2005, 31 March 2006 and 31 March 2007	10,000	770	1	10,771
Amortisation and impairment				
At 1 April 2005, 31 March 2006 and 31 March 2007	10,000	770	1	10,771
Carrying values				
At 31 March 2007	**–**	**–**	**–**	**–**
At 31 March 2006	–	–	–	–

The operation rights of HK$10,000,000 represents the sole exclusive rights acquired for the remaining term of 20 years commencing November 2000 for the sale, installation, operations of food waste management business including the right of modification and manufacturing of the relevant machinery in Hong Kong and certain cities in the PRC.

The intellectual property represents the exclusive worldwide rights acquired to the use and ownership of the expertise and intellectual property developed by a professor in the PRC. The estimated useful life of the intellectual property upon acquisition is 20 years.

Organisation costs for Youngdong Environmental Engineering Co., Ltd. are amortised on a straight line basis over its estimated useful life of 5 years.

11. GOODWILL

	The Group
	HK$'000
Cost	
At 1 April 2005 and 31 March 2006	1,893
Arising from acquisition of a subsidiary during the year	47,372
At 31 March 2007	49,265
Impairment	
At 1 April 2005 and 31 March 2006	–
Impairment loss recognised	1,893
At 31 March 2007	1,893
Carrying value	
At 31 March 2007	**47,372**
At 31 March 2006	1,893

During the year ended 31 March 2007, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services in Korea was impaired by approximately HK$1,893,000 (2006: Nil). The recoverable amount of the operations was assessed by reference to value in use. A discount factor of 5% per annum (2006: 5% per annum) was applied in the value in use model.

Particulars regarding impairment testing on goodwill are disclosed in Note 12 to the financial statements.

12. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in Note 11 has been allocated to the following cash generating units (CGUs). The carrying amount of goodwill (net of accumulated impairment losses) as at 31 March 2007 is allocated as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services in Korea	**–**	1,893
Provision of healthcare and hospital management services in PRC	**47,372**	–
	47,372	1,893

(a) Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services in Korea

The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five year period, and a discount rate of 5% per annum (2006: 5% per annum). Management determined the budgeted gross margin based on past performance and its expectations for the market development.

(b) Provision of healthcare and hospital management services in the PRC

The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five year period, and a discount rate of 4.5% per annum. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU. Management determined the budgeted gross margin based on past performance and its expectations for the market development.

13. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at costs	**5,807**	1,527
Less: Impairment in value	**(1,527)**	(1,527)
	4,280	–
Advance to a subsidiary	**13,000**	13,000
Less: Provision for advance to a subsidiary	**(13,000)**	(13,000)
	–	–
	4,280	–

The advance to a subsidiary is unsecured, interest free and have no fixed terms of repayment. The directors considered that the carrying amounts of advance to a subsidiary approximate to its fair value.

The amount due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment. The directors considered that the carrying amounts of amounts due from/(to) subsidiaries approximate to their fair value.

Details of the Company's principal subsidiaries at 31 March 2007 are set out in Note 42 to the financial statements.

14. INVENTORIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**1,479**	896
Work in progress	**1,030**	410
Finished goods	**1,454**	1,944
	3,963	3,250
Less: Provision for obsolete inventories	**(66)**	–
	3,897	3,250

15. TRADE AND OTHER RECEIVABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**22,894**	15,538
Deposits made to suppliers	**22,392**	267
Deposits paid under a non-legally binding memorandum of understanding	**–**	10,000
Deposit paid under a conditional sale and purchase agreement	**11,250**	–
Deposits paid	**19,489**	1,409
Prepayments	**517**	1,554
Other receivables	**562**	1,443
	77,104	30,211

15. TRADE AND OTHER RECEIVABLES – continued

Payment terms with customers are mainly on credit together with deposits and receivable by instalment basis. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers and receivables by instalment basis where it is normally payable from 1 to 2 years of issuance. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Age		
0 to 90 days	**19,981**	11,403
91 to 180 days	**1,201**	427
181 to 365 days	**–**	1,287
Over 365 days	**2,703**	5,987
	23,885	19,104
Less: Provision for impairment losses of trade receivables *(Notes (b))*	**(991)**	(3,566)
	22,894	15,538

Notes:

(a) The carrying amounts of trade receivables approximate to their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 April 2006/2005	**3,566**	2,602
Bad debt written off	**(2,642)**	–
Provision for impairment losses for the year	**67**	964
At 31 March 2007/2006	**991**	3,566

16. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1 April 2005	1,500,000,000	15,000
– share consolidation (Note (a))	(1,200,000,000)	–
– increase in authorised share capital (Note (b))	300,000,000	15,000
Ordinary shares of HK$0.05 each		
– at 31 March 2006 and 1 April 2006	600,000,000	30,000
– increase in authorised share capital (Note (d),(e))	4,400,000,000	220,000
– at 31 March 2007	**5,000,000,000**	**250,000**
Issued and fully paid		
Ordinary shares of HK$0.01 each		
– at 1 April 2005	1,390,401,667	13,904
– share consolidation (Note (a))	(1,112,321,334)	–
Ordinary shares of HK$0.05 each		
– issue of new share on subscription (Note (c))	55,600,000	2,780
– exercise of share options (Note 23)	11,250,000	563
– at 31 March 2006 and 1 April 2006	344,930,333	17,247
– issue of new shares (Note (g),(h))	481,523,083	24,076
– rights issue (Note (f))	172,465,166	8,623
– exercise of share options (Note 23)	4,848,750	242
– conversion of convertible notes (Note 22)	78,329,868	3,917
– at 31 March 2007	**1,082,097,200**	**54,105**

16. SHARE CAPITAL – continued

Notes:

(a) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 11 May 2005, every five shares of HK$0.01 each in the issued and un-issued ordinary share capital of the Company are consolidated into one consolidated share HK$0.05 each (the "Share Consolidation"). The Share Consolidation became effective on 12 May 2005.

(b) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 8 November 2005, the authorised share capital of the Company increased from HK$15,000,000 divided into 300,000,000 shares of HK$0.05 each to HK$30,000,000 divided into 600,000,000 shares of HK$0.05 each by the creation of an additional 300,000,000 un-issued shares of HK$0.05 each.

(c) On 12 October 2005 and 11 November 2005, the Company issued and allotted 16,000,000, 23,600,000 and 16,000,000 new ordinary shares of HK$0.05 each to three independent third parties, Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited at a subscription price of HK$0.13 per share respectively. The subscription price represented a discount of approximately 19.25% to the closing price of HK$0.161 per share as quoted on the Stock Exchange on the date of the subscription agreement. The net proceeds from the placing which amounted to approximately HK$7.00 million were used to finance the Group's future investment in environmental related projects in the PRC, other potential investments and the general working capital of the Group.

(d) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 9 May 2006, the authorised share capital of the Company increased from HK$30,000,000 divided into 600,000,000 shares of HK$0.05 each to HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each by the creation of an additional 1,400,000,000 un-issued shares of HK$0.05 each.

(e) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 9 March 2007, the authorised share capital of the Company increased from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$250,000,000 divided into 5,000,000,000 shares of HK$0.05 each by the creation of an additional 3,000,000,000 un-issued shares of HK$0.05 each.

(f) On 11 April 2006, the Company issued 172,465,166 rights shares at a subscription price of HK$0.06 each on the basis of one rights share for every two existing shares held on the record date. The net proceeds from the rights issue were approximately HK$9,350,000. The net proceeds of HK$0.5 million towards general working capital of the Group and the balance towards projects of investments in the healthcare sector.

(g) On 24 November 2006, the Group acquired 76% interest of the issued share capital of Day View Group Limited and the loan from shareholders for a consideration of approximately HK$96,860,000 and was settled by cash of approximately HK$20,000,000 and the issue of 126,000,000 ordinary shares of HK$0.05 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK$0.61 each.

(h) On 16 February 2007, the Company issued 355,523,083 offer shares by an open offer at a subscription price of HK$0.08 per offer share on the basis of one offer share for every two shares held on record date. The net proceeds of approximately HK$23,060,000 were used to finance future investments including the joint ventures with Town Health International Holdings Company Limited and approximately HK$3,000,000 towards general working capital of the Group.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

17. RESERVES

The Company

	Share premium HK$'000	Share-based payment reserve HK$'000	Warrant reserve HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	56,022	–	–	1,452	–	(71,787)	(14,313)
Premium arising on issue of shares	4,448	–	–	–	–	–	4,448
Issuing expenses	(627)	–	–	–	–	–	(627)
Share-based payment expenses	–	449	–	–	–	–	449
Exercise of share options	336	(336)	–	–	–	–	–
Premium arising on exercise of share options	585	–	–	–	–	–	585
Equity component of convertible notes	–	–	–	–	499	–	499
Loss for the year	–	–	–	–	–	(25,535)	(25,535)
At 31 March 2006 and 1 April 2006	60,764	113	–	1,452	499	(97,322)	(34,494)
Premium arising on issue of shares	81,226	–	–	–	–	–	81,226
Premium arising on rights issue	1,725	–	–	–	–	–	1,725
Issuing expenses	(2,753)	–	–	–	–	–	(2,753)
Share-based payment expenses	–	5,000	–	–	–	–	5,000
Premium arising on exercise of share options	141	–	–	–	–	–	141
Transfer to share premium upon exercise of share options	113	(113)	–	–	–	–	–
Conversion of convertible notes	11,165	–	–	–	(430)	–	10,735
Issue of warrants	–	–	1,837	–	–	–	1,837
Loss for the year	–	–	–	–	–	(9,384)	(9,384)
At 31 March 2007	**152,381**	**5,000**	**1,837**	**1,452**	**69**	**(106,706)**	**54,033**

(a) The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganisation in 2001 and the nominal amount of the Company's shares issued for the acquisition.

17. RESERVES – continued

(b) On 18 May 2006, the Company entered into conditional warrant placing agreements with two independent third parties, Triumph Sky Finance Limited and Happy Woodstock Limited, to issue 103,414,000 warrants at a price of HK$0.02 per warrant for cash consideration by way of a private placement. Each warrant entitles the holder to subscribe for one ordinary share of the Company at an initial subscription price of HK$0.62 (subject to adjustment) from the date of issue to 4 December 2007. Any ordinary shares falling to be issued upon the exercise of the subscription right to the warrants will rank pari passu in all respects with the existing fully paid ordinary shares of the Company on the relevant subscription date. No warrant was exercised during the year ended 31 March 2007.

(c) The Company had distributable reserves of approximately HK$45,675,000 as at 31 March 2007 (2006: Nil). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium account of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debt as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

18. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	HK$'000
Trade payables	**3,747**	4,757
Value-added tax payables	**2,597**	432
Other payables	**5,994**	4,402
	12,338	9,591

The following is an aged analysis of trade payables at the balance sheet date:

	2007	2006
	HK$'000	HK$'000
Age		
0 to 90 days	**2,151**	4,333
91 to 180 days	**407**	68
181 to 365 days	**784**	5
Over 365 days	**405**	351
	3,747	4,757

Note: The carrying amounts of trade payables approximate to their fair values.

19. OBLIGATIONS UNDER FINANCE LEASE

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable under finance leases:				
Within one year	**380**	142	**297**	111
In the second to fifth years	**–**	380	**–**	297
	380	522	**297**	408
Less: Future finance charges	**(83)**	(114)		
Present value of lease obligations	**297**	408		
Less: Amount due within one year shown under current liabilities	**–**	(111)		
Amount due after one year	**297**	297		

Note: The directors considered that the carrying amounts of obligations under finance lease approximate to their fair values.

20. AMOUNTS DUE TO DIRECTORS/MINORITY SHAREHOLDERS

The amounts due to directors/minority shareholders are unsecured, interest free and have no fixed terms of repayment. The directors considered that the carrying amounts of amounts due to directors/minority shareholders approximate to their fair value.

21. SECURED SHORT TERM BANK LOAN

	The Group	
	2007	2006
	HK$'000	HK$'000
Secured short-term bank loan	**6,000**	–

The amount represents short-term bank borrowings of HK$6,000,000 which is repayable on demand and secured by bank deposits amounting to approximately HK$5,048,000 (2006: Nil). The weighted average effective interest rate on the bank loans is 4.7% per annum.

22. CONVERTIBLE NOTES

On 25 November 2005, the Company entered into a placing agreement with an independent placing agent, Hantec Capital Limited (the "Placing Agent"), to place on a best endeavours basis of certain unsecured convertible notes in the aggregate principal amount of more than HK$15,000,000 and up to HK$20,000,000 to placees (the "Placing Agreement").

On 11 January 2006, completion of the Placing Agreement took place. An aggregate principal amount of HK$18,000,000 (the "Convertible Notes") have been placed through the Placing Agent and issued by the Company to 13 independent placees (the "Notes Holder"). The Convertible Notes mature at the third anniversary of the issue date.

The Convertible Notes, if fully subscribed for and issued, are convertible into a total of approximately 67,164,179 new ordinary shares of the Company at the initial conversion price of HK$0.268 per ordinary share (subject to adjustments).

On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the Convertible Notes, the conversion prices of the Convertible Notes were adjusted accordingly. The new conversion price per share and the number of conversion shares after the rights issue subject to the Convertible Notes was 86,956,521 shares exercisable at HK$0.207 each.

On 16 February 2007, the Company completed the open offer of 355,523,083 offer shares. Pursuant to the terms of the Convertible Notes, the conversion prices of the Convertible Notes were adjusted accordingly. The new conversion price per share and the number of conversion shares after the open offer subject to the Convertible Notes was 33,816,425 shares exercisable at HK$0.161 each.

The Convertible Notes contains two components, liability and equity components. The equity component is presented in equity heading "Convertible Notes reserve". The effective interest rate of the liability component is 6.73%.

22. CONVERTIBLE NOTES – continued

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible notes reserves.

The Convertible Notes recognised in the balance sheet was calculated as follows:

	The Group and the Company HK$'000
Face value of Convertible Notes issued on 11 January 2006	18,000
Equity component	(499)
Liability component on initial recognition at 11 January 2006	17,501
Transaction costs	(827)
Amortised cost on initial recognition at 11 January 2006	16,674
Interest expense	246
Interest payable	(158)
Amortised cost at 31 March 2006 and at 1 April 2006	16,762
Interest expense	623
Interest payable	(406)
Converted into Company's shares	(14,651)
Amortised cost at 31 March 2007	2,328

During the year ended 31 March 2007, Convertible Notes with an aggregate amount HK$15,500,000 was converted into the ordinary shares of the Company. Total number of ordinary shares converted was 78,329,868 (Note 16).

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.73% to the liability component.

23. SHARE OPTION SCHEME

(a) Pre-listing share options

Pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, consultants, and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have duration of 10 years from and including 10 May 2002 subject to the terms of the scheme.

Details of the movements in the number of share options during the year under the Company's pre-listing share options scheme which are exercisable in three equal trenches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK$0.409 (2006: HK$0.14) per share are as follows:

	Number of share options			
Type of participants	**Outstanding at 31 March 2006**	**Adjustment during the year** (Note (v), (vi))	**Outstanding at 31 March 2007**	**Date of grant**
Advisor	480,000	341,293	821,293	25 April 2002
Former employee	320,000	227,529	547,529	25 April 2002
Total	800,000	568,822	1,368,822	

(b) Post-listing share options

Pursuant to the post-listing share option scheme also adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, any supplier of goods or services, any customers, any person or entity that provides research, development or other technical support or any shareholder of the Group or any investee or any holder of any securities issued by any member of the Group or any investee, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the post-listing share option scheme shall not exceed 10% of the issued share capital of the Company from time to time. No participant shall be granted an option, if exercise in full, would result in the total number of shares already issued under all the options granted to him or her that are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of shares in issue. The exercise price of the share will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

23. SHARE OPTION SCHEME – continued

(b) Post-listing share options – continued

Details of the movements in the number of share options during the year are as follows:

	Number of share options								
Type of participants	Outstanding at 31 March 2006	Granted during the year	Adjustment during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2007	Date of grant	Exercise price per share	Exercise period
Directors									
Mr. Yung Kwok Leong	–	2,450,000	792,085	–	–	3,242,085	13 July 2006	HK$0.627	13 July 2006 to 12 July 2016
	–	5,800,000	–	–	–	5,800,000	21 March 2007	HK$0.51	21 March 2007 to 22 March 2017
Mr. Chan Hon Chiu (resigned on 1 April 2006)	1,250,000	–	366,250	(1,616,250)	–	–	7 July 2005	HK$0.079	7 July 2005 to 6 July 2015
Mr. Yeung Kam Yan (resigned on 25 April 2006)	1,250,000	–	366,250	(1,616,250)	–	–	7 July 2005	HK$0.079	7 July 2005 to 6 July 2015
Ms. Shum Ngai Pan	–	2,800,000	905,240	–	–	3,705,240	13 July 2006	HK$0.627	13 July 2006 to 12 July 2016
	–	7,100,000	–	–	–	7,100,000	21 March 2007	HK$0.51	21 March 2007 to 22 March 2017
Mr. Weng Jiaxing	–	2,700,000	872,910	–	–	3,572,910	13 July 2006	HK$0.627	13 July 2006 to 12 July 2016
	–	7,200,000	–	–	–	7,200,000	21 March 2007	HK$0.51	21 March 2007 to 22 March 2017
Mr. Chan Jin Shan	–	5,200,000	1,681,160	–	–	6,881,160	13 July 2006	HK$0.627	13 July 2006 to 12 July 2016
	–	3,900,000	–	–	–	3,900,000	21 March 2007	HK$0.51	21 March 2007 to 22 March 2017
Dr. Jiang Tao	–	5,200,000	1,681,160	–	–	6,881,160	13 July 2006	HK$0.627	13 July 2006 to 12 July 2016
	–	3,900,000	–	–	–	3,900,000	21 March 2007	HK$0.51	21 March 2007 to 22 March 2017
	2,500,000	46,250,000	6,665,055	(3,232,500)	–	52,182,555			
Employees	1,250,000	–	366,250	(1,616,250)	–	–	7 July 2005	HK$0.079	7 July 2005 to 6 July 2015
	–	11,650,000	3,766,445	–	–	15,416,445	13 July 2006	HK$0.627	13 July 2006 to 12 July 2016
	–	12,500,000	4,041,250	–	–	16,541,250	24 July 2006	HK$0.62	24 July 2006 to 23 July 2016
	–	72,100,000	–	–	–	72,100,000	21 March 2007	HK$0.51	21 March 2007 to 22 March 2017
	3,750,000	142,500,000	14,839,000	(4,848,750)	–	156,240,250			

23. SHARE OPTION SCHEME – continued

(b) Post-listing share options – continued

Notes:

(i) The Group recognises the fair value of share options granted as an expense in the consolidated income statement over the vesting period with a corresponding increase being recognised in share-based payment reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the consolidated income statement of the respective periods.

(ii) Share options granted under the pre-listing share options scheme are not expensed as the options were all granted and vested before 7 November 2002 and not subject to requirements of HKFRS 2.

(iii) The estimated fair value of each option granted on 7 July 2005, 13 July 2006, 24 July 2006 and 21 March 2007 are approximately HK$0.0299, HK$0.0226, HK$0.0188 and HK$0.0384.

The fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options grant date			
Date of grant	**7 July 2005**	**13 July 2006**	**24 July 2006**	**21 March 2007**
Stock asset price	HK$0.102	HK$0.83	HK$0.82	HK$0.51
Exercise price	HK$0.079	HK$0.627	HK$0.62	HK$0.51
Expected volatility	10.23%	57.06%	44.89%	119.62%
Expected life	10 years	0.25 years	0.25 years	0.25 years
Risk-free rate	3.13%	3.984%	3,830%	3.682%
Expected dividend yield	0%	0%	0%	0%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the one year immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares set out as above.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(iv) On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the pre-listing and post-listing share options schemes, the exercise prices of the share options were adjusted accordingly. The new exercise price per share and the number of shares subject to the outstanding share options after the rights issue under the pre-listing and post-listing share option schemes are 1,034,400 shares exercisable at HK$0.541 each and 4,848,750 shares exercisable at HK$0.079 each respectively.

23. SHARE OPTION SCHEME – continued

(b) Post-listing share options – continued

(v) On 16 February 2007, the Company issued 355,523,083 offer shares by an open offer at a subscription price of HK$0.08 per offer share on the basis of one Offer Share for every two shares held on Record Date. Pursuant to the terms of the pre-listing and post-listing share options schemes, the exercise prices of the share options were adjusted accordingly. The new exercise price per share and the number of shares subject to the outstanding share options after the open offer under the pre-listing and post-listing share option schemes are 1,368,822 shares exercisable at HK$0.409 each and 39,699,000 shares exercisable at HK$0.627 each (granted on 13 July 2006) and 16,541,250 shares exercisable at HK$0.62 each (granted on 24 July 2006) respectively.

(vi) As at 31 March 2007, 157,609,072 share options are exercisable.

24. TURNOVER AND REVENUE

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the installation of environmental analyses and measurement services, the sale of environmental protection products, provision of related services and manufacture of melamine and its related products and provision of healthcare and hospital management services. An analysis of the Group's turnover and other revenue is as follows:–

	2007 **HK$'000**	2006 HK$'000
Turnover:		
Manufacture and sales of environmental protection products	**640**	8,682
Manufacture and sales of melamine and its related products	**21,907**	7,242
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services	**21,917**	25,164
Provision of healthcare and hospital management services	**33,057**	–
	77,521	41,088
Other revenue:		
Interest income	**503**	35
Sundry income	**83**	5
	586	40
	78,107	41,128

25. PROFIT FROM OPERATIONS

	2007 HK$'000	2006 HK$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (Note 26)	**2,269**	337
Other staff's retirement benefits scheme contributions	**490**	910
Other staff costs	**10,930**	9,695
	13,689	10,942
Auditors' remuneration	**580**	341
Provision for impairment on trade and other receivables	**67**	964
Provision for obsolete inventories	**66**	–
Cost of goods sold	**33,021**	11,542
Depreciation of property, plant and equipment		
– owned by the Group	**2,164**	1,586
– held under finance lease	**98**	41
Loss on disposal of property, plant and equipment	**317**	13
Operating lease rentals in respect of land and buildings	**1,235**	925
Development costs	**–**	1,108
and after crediting:		
Other income:		
Bad debt recovered	**–**	916
Reversal of provision of obsolete inventories	**–**	254
Reversal of trade payables	**–**	2,285
Net exchange gain	**–**	10
	–	3,465

26. DIRECTORS' REMUNERATION

The remuneration of every director for the year ended 31 March 2007 and 2006 are set out below:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Executive Directors										
Yung Kwok Leong	–	–	416	83	–	–	–	–	416	83
Chan Hon Chiu (resigned on 1 April 2006)	–	–	–	37	–	–	–	–	–	37
Yeung Kam Yan (resigned on 25 April 2006)	–	–	–	37	–	–	–	–	–	37
Sham Ngai Pan (appointed on 25 April 2006)	–	–	525	–	–	–	–	–	525	–
Weng Jiaxing (appointed on 25 April 2006)	–	–	447	–	–	–	–	–	447	–
Chen Jin Shan (appointed on 25 April 2006)	–	–	362	–	–	–	–	–	362	–
Jiang Tao (appointed on 3 January 2007)	–	–	335	–	–	–	–	–	335	–
	–	–	2,085	157	–	–	–	–	2,085	157
Non-Executive Director										
Wong Yu Man, James (appointed on 20 March 2007)	–	–	4	–	–	–	–	–	4	–
Independent Non-Executive Directors										
Chan Francis Ping Kuen	60	60	–	–	–	–	–	–	60	60
Hsu William Shiu Foo	60	60	–	–	–	–	–	–	60	60
Yu Chai Mei	60	60	–	–	–	–	–	–	60	60
	180	180	–	–	–	–	–	–	180	180
	180	180	2,089	157	–	–	–	–	2,269	337

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

The other benefits represented the equity-settled share-based payment expenses for share options granted to the directors amounted to approximately HK$1,623,000 (2006: HK$157,000).

27. EMPLOYEES' EMOLUMENTS

Four executive directors of the Company included in the aggregate emoluments of the five highest paid individuals (2006: Nil). The aggregate emoluments of the one (2006: five) highest paid individual is as follows:

	2007 **HK$'000**	2006 HK$'000
Basic salaries, allowances and other benefits	**604**	1,644
Retirement benefits scheme contributions	**12**	201
	616	1,845

The other benefits represented the equity-settled share-based payment expenses for share options granted to the employees amounted to approximately HK$340,000 (2006: Nil).

None of the above five highest paid individuals received emoluments in excess of HK$1 million.

28. FINANCE COSTS

	2007 **HK$'000**	2006 HK$'000
Interest on		
– bank borrowings wholly repayable within five years	**295**	40
– finance lease	**31**	13
	326	53
Imputed interest on convertible notes	**623**	246
	949	299

29. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a taxation loss for the year. Provision on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 HK$'000	2006 HK$'000
Current tax		
Provision for the year – PRC	**1,227**	574
Over provision in previous year – Hong Kong	**–**	(13)
	1,227	561

The charge for the year is reconciled to the profit before taxation per the consolidated income statement as follows:

For the year ended 31 March 2007

	Hong Kong HK$'000		PRC HK$'000		Korea HK$'000		Total HK$'000	
Profit /(loss) before taxation	(28,569)		37,588		(923)		8,096	
Tax at applicable income tax rate	(5,000)	(17.5%)	12,404	33.0%	(132)	(14.3%)	7,272	89.8%
Tax effect of expenses and income not deductible or taxable for tax purposes	(487)	(1.7%)	(11,177)	(29.7%)	132	14.3%	(11,532)	(142.4%)
Tax effect of tax losses not recognised	5,487	19.2%	–	–	–	–	5,487	67.8%
Tax charge and effective tax rate for the year	–	–	1,227	3.3%	–	–	1,227	15.2%

29. TAXATION – continued

For the year ended 31 March 2006

	Hong Kong HK$'000		PRC HK$'000		Korea HK$'000		Total HK$'000	
Profit/(loss) before taxation	(2,172)		7,493		(1,666)		3,655	
Tax at applicable income tax rate	(380)	(17.5%)	2,473	33.0%	(238)	(14.3%)	1,855	50.8%
Tax effect of expenses and income not deductible or taxable for tax purposes	(101)	(4.6%)	(1,899)	(25.3%)	238	14.3%	(1,762)	(48.2%)
Tax effect of tax losses not recognised	481	22.1%	–	–	–	–	481	13.2%
(Over)/under provision in previous years	(13)	(0.6%)	–	–	–	–	(13)	(0.4%)
Others	–	–	–	–	–	–	–	–
Tax charge and effective tax rate for the year	(13)	(0.6%)	574	7.7%	–	–	561	15.4%

30. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 March 2007, net loss of approximately HK$9,384,000 (2006: HK$25,535,000) has been dealt with in the financial statements of the Company.

31. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK$5,981,000 (2006: HK$3,191,000) and the weighted average number of 639,693,935 (2006: 438,751,909) shares in issue during the year.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: convertible notes, warrants and share options.

The convertible notes and warrants are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expenses of convertible notes less the tax effect.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007 **HK$'000**	2006 HK$'000
Profit attributable to equity holders of the Company	**5,981**	3,191
Interest expense on convertible notes (net of tax)	**514**	203
Profit used to determine diluted earnings per share	**6,495**	3,394

	2007	2006
Weighted average number of ordinary shares in issue	**639,693,935**	438,751,909
Adjustments for assumed exercise of share options	**157,609,072**	1,544,406
Adjustments for assumed exercise of warrants	**103,414,000**	–
Adjustments for assumed conversion of convertible notes	**15,527,950**	96,716,418
Weighted average number of ordinary shares of diluted earnings per share	**916,244,957**	537,012,733

	2007	2006
Diluted earnings per share	**HK0.71 cents**	HK0.63 cents

32. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2007 (2006: Nil).

33. PLEDGED ASSETS

At 31 March 2007, certain bank deposits of the Group were pledged as collateral for certain banking facilities. The Company had not pledged any assets at the balance sheet date.

34. ACQUISITION OF A SUBSIDIARY

On 24 November 2006, the Group acquired 76% interest of the issued share capital of Day View Group Limited and the loan from shareholders for a consideration of approximately HK$96,860,000 and was settled by cash of approximately HK$20,000,000 and the issue of 126,000,000 ordinary shares of HK$0.05 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK$0.61 each. The aggregate amount of goodwill arising as a result of the acquisition was approximately HK$47,372,000.

34. ACQUISITION OF A SUBSIDIARY – continued

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	1,314	–	1,314
Trade and other receivables	25,685	–	25,685
Cash and bank balances	83	–	83
Trade and other payables	(1,514)	–	(1,514)
Loan from shareholders	(15,163)	–	(15,163)
Net assets	10,405	–	10,405
Acquisition of 76% of net assets			7,908
Goodwill arising on acquisition (Note 11)			47,372
			55,280
Special reserve (Note (a))			41,580
			96,860
Fair value of purchase consideration settled in issuance of new shares			35,280
Total consideration satisfied by:			
Cash			20,000
Consideration shares			35,280
			55,280
Net cash outflow arising on acquisition:			
Cash consideration paid			(20,000)
Cash and bank balances acquired			83
			(19,917)

34. ACQUISITION OF A SUBSIDIARY – continued

Notes:

(a) The difference between the fair value and the contracted value of consideration paid in respect of the acquisition of the acquired subsidiary.

(b) The fair value of the consideration shares is determined based on the quoted closing price of the Company's share of HK$0.28 at the date of acquisition and 126,000,000 shares.

(c) If the acquisition had been completed on 1 April 2006, total Group's turnover for the year would have been HK$78,256,000, and profit for the year would have been HK$16,974,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor is it intended to be a projection of future results.

(d) The subsidiary acquired during the year contributed approximately HK$8,446,000 to the Group's turnover and profit after tax of approximately HK$5,990,000 to the Group for the year.

(e) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Day View Group Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Day View Group Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

35. DEFERRED TAXATION

At the balance sheet date, the Group and the Company has unutilised tax losses of approximately HK$45,992,000 (2006: HK$40,505,000) and HK$4,627,000 (2006: HK$2,985,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

36. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,146**	568
In the second to fifth years inclusive	**683**	366
Over five years	**30**	58
	1,859	992

37. COMMITMENTS

(a) Pursuant to an exclusive right to distribute and sell and the right to use the enzyme-based materials worldwide except North America, South Korea and Japan, the Group was committed to pay to an independent third party 10% of the net profit after taxation of the relevant business for 30 years expiring October 2028. No payments were made during the year as the relevant business was operating at a loss in which the loss could be carried forward to set off against future profits of the relevant business.

(b)

	The Group	
	2007	2006
	HK$'000	HK$'000
Commitments for the acquisition of a company	**146,050**	–

(c) The Company had no other significant commitments at the balance sheet date.

38. CONTINGENT LIABILITIES

	The Company	
	2007	2006
	HK$'000	HK$'000
Guarantees given to banks, in respect of banking facilities utilised by subsidiaries	**10,000**	–

39. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

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

40. SIGNIFICANT RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following significant transaction with related parties:

(a) Key management personnel

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Note 26 and 27, is as follows:

	2007 **HK$'000**	2006 HK$'000
Short-term employee benefits	**646**	180
Share-based payment	**1,623**	157
	2,269	337

41. SUBSEQUENT EVENTS

(a) On 13 March 2007, a wholly owned subsidiary of the Group, Wisdom Rise Group Limited ("Wisdom Rise"), entered into an agreement with an independent third party to acquire the entire issued share capital of Hero Vision Enterprises Limited for a consideration of approximately HK$157,300,000 and was settled by cash of approximately HK$11,250,000, issue of 170,320,000 ordinary shares of HK$0.05 each in the share capital of the Company, which were allotted, issued and credited as fully paid at the price of HK$0.352 each, issue HK$33,000,000 convertible notes and issue HK$12,097,360 promissory notes. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK$77,858,000.

41. SUBSEQUENT EVENTS – continued

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	38,222	–	38,222
Goodwill	5,166	–	5,166
Deferred tax assets	8,498	–	8,498
Inventories	1,138	–	1,138
Trade and other receivables	725	–	725
Cash and bank balances	67,996	–	67,996
Trade and other payables	(16,271)	–	(16,271)
Amount due to a minority shareholder	(12,950)	–	(12,950)
Minority interests	(13,082)	–	(13,082)
Net assets (Note (i))	79,442	–	79,442
Goodwill arising on acquisition (Note (ii))			77,858
			157,300
Total consideration satisfied by:			
Cash			52,250
Consideration shares (Note (i))			59,953
Convertible notes (Note (i))			33,000
Promissory notes (Note (i))			12,097
			157,300
Net cash inflow arising on acquisition:			
Cash consideration paid			(52,250)
Cash and bank balances acquired			67,996
			15,746

41. SUBSEQUENT EVENTS – continued

Notes:

(i) The fair values to be assigned to the acquiree's identifiable assets, liabilities, contingent liabilities and the cost of the combination can be determined only provisionally, any adjustments to those provisional values will be required upon completion of the acquisition. The directors considered that the carrying amount of consideration shares, convertible notes and promissory notes approximate to their fair values. The directors also considered that the amount of turnover and profit after tax contributed by the subsidiary to be acquired can only be determined upon completion of the acquisition. For further details, please refer to the Company's circular dated 16 April 2007.

(ii) Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Hero Vision Enterprises Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Hero Vision Enterprises Limited Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

(b) On 13 March 2007, the Company entered into a placing agreement with the placing agent in relation to the placing of not more than 200,000,000 shares at an issue price of HK$0.352 per share. The estimated net proceeds from the placing will be approximately HK$67,900,000 which will be used for partial payment of the consideration of the acquisition of Hero Vision Enterprises Limited (Note 41(a)), future business development of the Group and general working capital of the Group. The placing was completed on 24 April 2007. For further details, please refer to the Company's announcements dated 20 March 2007 and 24 April 2007.

(c) On 24 November 2006, the Company entered into a letter of intent with an independent third party in relation to the proposed acquisition of 60% equity interests in Fuzhou Taijang Hospital. The long-stop date of the letter of intent has been extended from 31 March 2007 to 30 June 2007. For further details, please refer to the Company's announcements dated 24 November 2006 and 2 April 2007.

(d) On 24 April 2007, the Company entered into a letter of intent with an independent third party in relation to the proposed acquisition of whole or part of the equity interests in Karise Development Limited. The long-stop date of the letter of intent is 30 June 2007. For further details, please refer to the Company's announcements dated 24 April 2007.

(e) On 15 May 2007, the Company entered into a placing agreement with the placing agent in relation to the placing of not more than 256,000,000 shares at an issue price of HK$0.58 per share. The estimated net proceeds from the placing will be approximately HK$67,900,000 which will be used for future investment in healthcare section in PRC and general working capital of the Group. The placing was completed on 28 May 2007. For further details, please refer to the Company's announcements dated 17 May 2007 and 28 May 2007.

42. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned limited liability companies (except otherwise stated), at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Grandy Environmental (H.K.) Limited **	Hong Kong	HK$3,010,000	Manufacture and sales of environmental protection products and provision of related services
Grandy Trading and Services (H.K.) Limited (formerly know as Grandy Enviro-Tech Company Limited) **	Hong Kong	HK$10,000	Sales of environmental protection products
珠海市紫雲星環保科技有限公司 (Zhuhai Grandy Star Environmental Technology Corporation)# **	The PRC	RMB5,000,000	Provision of environmental protection services for a term of 30 years commencing 14 November 2002
Youngdong Environmental Engineering Co., Ltd. *	Republic of Korea	KWR200,000,000	Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analysis and measurement services
Grand Brilliant Corporation Limited	British Virgin Islands	HK$1	Provision of healthcare and hospital management services
柏源(福建)化工有限公司** (Prime Source (Fujian) Company Limited)	The PRC	HK$15,000,000	Manufacture and sales of melamine and its related products

42. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Best Boom Resources Limited	British Virgin Islands	US$1	Provision of healthcare and hospital management services
Day View Group Limited @	British Virgin Islands	US$1,000	Investment holding
Shanghai Humanity Hospital Management Limited**	The PRC	HK$24,077,100	Provision of healthcare and hospital management services

\# This is a wholly foreign-owned enterprise established in the PRC and had been applied for voluntary winding up and pending for authorisation document from government authorities.

* Audited by member firm of HLB International.

** Audited by another Hong Kong Certified Public Accountants.

@ The Group owned 76% of Day View Group Limited and 38.76% of Shanghai Humanity Hospital Management Limited respectively.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

43. NON-CASH TRANSACTIONS

On 24 November 2006, the Group acquired 76% of the issued share capital of Day View Group Limited at a consideration of HK$96,860,000, the consideration of HK$76,860,000 was satisfied by the Company's shares.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 June 2007.

FINANCIAL SUMMARY

31 March 2007 (in HK Dollars)

	For the year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Results					
Turnover	**77,521**	41,088	34,230	18,578	28,318
Profit/(loss) before taxation	**8,096**	3,655	(6,666)	(39,447)	(11,694)
Taxation	**(1,227)**	(561)	(440)	–	10
Profit/(loss) for the year	**6,869**	3,094	(7,106)	(39,447)	(11,684)
Profit/(loss) attributable to					
– Equity holders of the Company	**5,981**	3,191	(7,045)	(34,729)	(11,375)
– Minority interests	**888**	(97)	(61)	(4,718)	(309)
	6,869	3,094	(7,106)	(39,447)	(11,684)

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Assets and liabilities					
Total assets	**172,976**	59,162	28,655	27,126	50,974
Total liabilities	**(38,249)**	(28,144)	(9,526)	(9,402)	(3,976)
	134,727	31,018	19,129	17,724	46,998