



中國水務集團有限公司
China Water Affairs Group Limited

ANNUAL REPORT 2005



CHINA WATER

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2 CORPORATE INFORMATION

CHINA WATER AFFAIRS GROUP LIMITED

DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Mr. Tsui Chi Kin

Non-executive

Mr. Zhao Hai Hu
Mr. Chiu Shun Pui, Andrew
Mr. Zhou Wen Zhi
(appointed on 19 October 2004)

Independent Non-executive

Mr. Chen Lizhong
Ms. Huang Shao Yun
Mr. Chan Chi Shing
(appointed on 30 September 2004)

AUDIT COMMITTEE

Mr. Chen Lizhong
Ms. Huang Shao Yun
Mr. Chan Chi Shing
(appointed on 30 September 2004)

COMPANY SECRETARY

Mr. Tam Chun Yip

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang
Mr. Tsui Chi Kin

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2606, 26th Floor
West Tower
Shun Tak Centre
No. 168-200 Connaught Road Central
Sheung Wan
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tengis Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITORS

RSM Nelson Wheeler

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Dear Shareholders,

I shall present the annual report of China Water Affairs Group Limited and together with its subsidiaries (the "Group") for the year ended 31 March 2005.

RESULTS OF THE YEAR

During the year under review, the Group has continuously focused on expanding in water supply and sewage treatment business in PRC and consolidation of the electronic business.

The turnover of the Group increase from HK\$33.2 million to HK\$48.5 million, an increase of 46.1%. The gross profit amounted to HK\$3.7 million (2004: gross loss of HK\$20.2 million).

The loss from operations improved from HK\$34.5 million last year to HK\$11.7 million. The loss attributable to shareholders was HK\$29.3 million (2004: HK\$97.6 million), representing a net loss per share of 7 Hong Kong cents (2004: 47 Hong Kong cents). During the year, 39.7% of loss attributable to shareholders contributed from investment in Electronic Tomorrow Manufactory Inc. ("ETMI") of which amounted to approximately HK\$11.6 million in aggregate together with full impairment of long term investment in Shanghai Jianhua Satellite Communication Co., Ltd of which amounted to HK\$3.5 million.

DIVIDEND

The Directors do not recommend the payment of a dividend.

BUSINESS REVIEW

Urban water supply business segment

During the year, the Directors continue deploying their expertise in pursuing business of urban water supply. The turnover of urban water supply business has grown from HK\$0.6 million to HK\$6.7 million, an increase of 10.2 times over the last year. The segment loss amounted to HK\$3.2 million for the year ended 31 March 2005 (2004: 1.6 million). The LBITDA of urban water supply business segment amounted to HK\$1.2 million (2004: LBITDA of HK\$0.9 million). The LBITDA of the year ended 31 March 2005 was mainly attributable to an impairment loss on fixed assets of HK\$ 2.7 million of a water supply plant in Renhua County, Guangdong Province, the PRC. The impairment of the fixed assets is due to the application of increase of the water tariffs is submitted to local government authorities and is under review and certain installation income of the water supply plant has not been considered under the review of impairment of the fixed assets of that water supply plant. Upon approval of



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CHINA WATER AFFAIRS GROUP LIMITED

increase of water tariffs and expanding water supply serving areas of water supply plant in Renhua County, Guangdong Province, the PRC and the Group is actively look for acquisition of water supply business with high growth potential, the Directors expected that the performance of urban water supply business segment will have significant improvement for the coming year.

Sewage treatment business segment

The turnover of sewage treatment business amounted to HK\$6.0 million (2004: Nil). The segment profit amounted to HK\$3.5 million for the year ended 31 March 2005 (2004: Nil). The EBITDA of sewage treatment business segment amounted to HK\$4.8 million (2004: Nil). The segment profit was mainly attributable to a sewage treatment plant which locate in Xinle City, Hebei Province with daily capacity of 40,000 tons. As the sewage treatment plant in Xinle City, Hebei Province which become a 55% owned subsidiary of the Group since August 2004, the Directors expected that the contribution from that sewage treatment plant to the segment results will be more in the coming year.



Electronics business segment

During the year, turnover of the electronics business operations amounted to HK\$35.8 million (2004: HK\$32.6 million), an increase of approximately 9.8% over the last year. By added experienced personnel to oversee the electronic business operations, the performance of the electronics business has improved over last year. The segment loss has reduced from HK\$23.8 million to HK\$5.6 million for the year ended 31 March 2005. The LBITDA of electronic business segment amounted to approximately HK\$48,000 (2004: LBITDA of HK\$21.2 million) with large improvement over the last year. As at 31 March 2005, the segment assets of electronic business amounted to HK\$15.3 million represented only 13.7% of total assets of the Group (2004:32.1%).

Interest in Electronic Tomorrow Manufactory Inc. ("ETMI")

As at 31 March 2005, the Group holds 25.7% equity interest in Electronic Tomorrow Manufactory Inc. ("ETMI"). During the year, the performance of ETMI was disappointing to the Directors again. The share of loss of ETMI for the year ended 31 March 2005 amounted to approximately HK\$3,292,000. In view of this successive losses making records of ETMI and continuous equity injection requirement, the Directors have decided to dispose of the Group's investment in ETMI at a cash consideration of HK\$1.2 million which the transaction was completed on 7 April 2005.



CAPITAL RAISING AND OPEN OFFER

On 22 March 2004, an underwriting agreement was entered into between Asset Full Resources Limited ("Asset Full"), the substantial shareholder of the Company, Kingston Securities Limited and the Company pursuant to which the Company offer one offer share at HK\$0.2 per offer for every two existing shares. The proposed open offer was duly approved by the EGM on 21 June 2004. The net proceed of approximately HK\$27.6 million has been used as to about HK\$10.1 million for its general working capital, as to about HK\$2.3 million for repayment of other payables of the Company,

as to about HK\$3.2 million for payment of the remaining cash consideration for acquisition of two water sewage plants and as to about HK\$6.5 million for development of water supply business. The unused proceed of HK\$5.5 million is held as bank balances of the Group.

Pursuant to the placing and subscription agreement dated 14 March 2005, Asset Full, the substantial shareholder of the Company, placed 30,000,000 ordinary shares of HK\$0.01 each in the capital of the Company at HK\$0.50 per share to over six independent placees and on 23 March 2005 subscribed for 30,000,000 new ordinary shares of the Company at HK\$0.50 per share. The net proceed received by the Company under the subscription were approximately HK\$14.4 million of which HK\$9.4 million used for investment in city water supply business in the PRC and as to the remaining HK\$5.0 million utilised as the general working capital.



Pursuant to the placing and subscription agreement dated 4 April 2005, Asset Full, the substantial shareholder of the Company, placed 57,600,000 ordinary shares of HK\$0.01 each in the capital of the Company at HK\$0.50 per share to over six independent placees and on 18 April 2005 subscribed for 57,600,000 new ordinary shares of the Company at HK\$0.50 per share. The net proceed received by the Company under the subscription were approximately HK\$28.1 million of which HK\$25.1 million used for investment in city water supply business in the PRC and as to the remaining HK\$3.0 million utilised as the general working capital.

FUTURE PLANS AND PROSPECTS

China is the most populous country in the world, and also the country with meagrest of water resources. Water supply business, as a public utility business, enjoys long term, steady returns and also has regional monopoly characteristic.



At present, the water tariffs in the PRC are on rising trend over these few years as a measure to increase public awareness of water conservation in PRC. By applying the Group's senior management's expertise and their extensive networks in these fields, the Directors expect that the pace of the expansion in water business will be significantly accelerated in the coming year.

Subsequent to the balance sheet date, the Group has announced several joint venture investments with several strategic partners in the PRC.

On 11 April 2005, the Group entered a joint venture agreement with Nanchang Municipal Public Investment Holding Group Company Limited, Beijing Lan Tian Bi Shui Investment Company Limited and Shenzhen Lan Tian Bi Shui Enterprise Development Company Limited pursuant to which the Group agreed to contribute RMB20,700,000 to the joint venture and holds 52.8% of its equity interest. The joint venture will engage in the business of water supply, water sewage and waste management related business with bases in Nanchang, Jiangxi Province, the PRC.

On 21 April 2005, the Group entered into a joint venture agreement with Jiangxi Water Resources and Hydropower Development Company. The Group agreed to contribute RMB29,250,000 to the joint venture and holds 65% of its equity interest. The joint venture will undertake water supply, water sewage treatment and development of hydroelectric power in the Jiangxi Province, the PRC.



On 28 June 2005, the Group entered into a preliminary cooperation agreement with Xinyu Shi Construction Bureau. Pursuant to the preliminary cooperation agreement, subject to the entering into of the joint venture agreement, the Company and Xinyu Shi Construction Bureau will form a joint venture to undertake water supply and water sewage treatment in Xinyu City, the Jiangxi Province, the PRC. It is currently expected that the total capital to be contributed by the Company and its subsidiaries will not exceed RMB60 million.

On 15 July 2005, the Group entered into investment agreement with China National Administration Center for Sea Buckthorn Development, Beijing You Bang Tian Cheng Technology Limited and Beijing Jiang Huo Sea Buckthorn Company pursuant to which the Group agreed to inject RMB20 million into Conseco Seabuckthorn Co., Ltd, the leading company for soil land and water conservation with planting seabuckthorn in China. The Group will own 50% of its registered capital. Conseco Seabuckthorn Co., Ltd is principally engaged in the production and sale of sea buckthorn and related products. The purpose for this investment is to improve the water environment to prevent soil erosion and develop seabuckthorn products in the west and north part of China.

By combining the local expertise of these strategic partners who have solid background and establishment in water business with the extensive industry experience of the Group's senior management, the Directors believe that the Group's competitiveness will be strengthened and will derive benefits from synergies. The Group also only invests in joint ventures in which it controls equity interest and has major representation in the board of the directors of the joint ventures. Moreover, the fund contribution will be paid as capital injection and for the development of these joint ventures. This allows more effective use of the Group's financial resources.

The management of the Group will continue devote their sincere efforts in actively identifying and acquiring high potential water business in PRC. The Directors of the Group are optimistic about the future prospects of the Group. While the Group continuously expanding into water business, the Group will consider to invite some international and the PRC strategic partners to join the Group to strengthen the competitiveness of the Group.

On 21 July 2005, the People's Bank of China, the central bank of the PRC, announced a reform of the Renminbi exchange rate mechanism. The acts include adjustment to the exchange rate of the Renminbi to 8.11 to the US dollar, up from 8.28, represented of appreciation of 2%. Moreover, Renminbi will no longer be pegged to the US dollar and exchange rate will be adjusted according to a basket of currencies. As the Group has focused on water supply and sewage treatment business in PRC, it is expected that the major revenue of the Group will principally generate in the PRC and denominated in Renminbi in the coming year. As the Group's reporting currency is denominated in Hong Kong dollar, the management considers that the appreciation of Renminbi will have positive effect to the Group's results in the coming years and the Group will also benefit from the appreciation of assets which are located in PRC and denominated in Renminbi.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group has total cash and bank balances of approximately HK\$20.2 million (2004: HK\$3.2 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 61.9% (2004: 69.4%) as at 31 March 2005. The current ratio has been improved from approximately 0.27 times as at 31 March 2004 to approximately 0.80 times as at 31 March 2005.

In the opinion of the Directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

EMPLOYEES

As at 31 March 2005, the Group has employed approximately 200 staff, principally in Hong Kong and the PRC. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

FOREIGN EXCHANGE RISK MANAGEMENT

During the year, the Group's trading activities were principally denominated in Hong Kong dollars, United State dollars and China Renminbi. As the exchange rate of Renminbi against Hong Kong dollar was relatively stable during the year while the United States dollars are pegged against Hong Kong dollar, the management considers the fluctuations among these currencies as minimal and the Group do not exposed to excessive currency fluctuation risk.

The recent announcement of the reform of Renminbi exchange rate system, will not expose the Group to currency fluctuation risk but will benefit the Group's results in the coming years as the main revenue of the Group will be generating in PRC and denominated in Renminbi but the Group's financial results are reporting in Hong Kong dollar.

PLEDGE OF ASSETS

As at 31 March 2005, none of the owned assets of the Group were utilised as security for the Group's borrowings.

CHANGE OF COMPANY'S NAME

Pursuant to a special resolution passed by the shareholders in the special general meeting held on 6 December 2004, the Company changed its name from "China Silver Dragon Group Limited" to "China Water Affairs Group Limited" to reflect the change in the business focus of the Group. A new Chinese name of "中國水務集團有限公司" was adopted by the Company to replace the old Chinese name of "中國銀龍集團有限公司" for identification purpose. The certificate of incorporation on change of name issued by the Registrar of Companies in Bermuda has certified that the Company's name was changed and registered with effect from 10 December 2004.

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CHINA WATER AFFAIRS GROUP LIMITED

CONTINGENT LIABILITIES

As at 31 March 2005, the Group did not have any significant contingent liabilities (2004: Nil).

ACKNOWLEDGEMENTS

On behalf of the Directors, I wish to express my gratitude to all staff and business associates of the Group for their continued support.

Duan Chuan Liang

Chairman

Hong Kong, 27 July 2005

DIRECTORS

Executive Directors

Mr. Duan Chuan Liang, aged 42, was graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree, specialising in irrigation and water conservancy works. He had been working for the Water Conservancy Department of the PRC Government for more than ten years. At present, Mr. Duan is a director of numerous enterprises in the PRC. He joined the Group in January 2003.

Mr. Tsui Chi Kin, aged 50, was graduated from the Law Research Institute, China Social Sciences Academy. He is responsible for the finance and trading matters of the Group. Mr. Tsui has over 21 years experience in trading and transportation businesses in the PRC and Hong Kong. At present, Mr. Tsui is the managing director of two private enterprises engaging in trading and manufacturing business. He joined the Group in April 2003.

Independent Non-executive Directors

Mr. Chen Lizhong, aged 50, is an accountant in the PRC and holds a master degree in business management. Mr. Chen joined Guangdong Dongshen Water Supply Bureau in 1975. He acted as the general manager of Shenzhen City Dongshen Industrial Development Holding Company between 1994 to 2000 and vice bureau head of the Bureau between 1996 to 2000. He was an executive director and general manager of Guangnan (Holdings) Limited between December 2000 to June 2002. He is also a vice president of Shenzhen Economics Society. He joined the Group in January 2003.

Ms. Huang Shao Yun, aged 50, Financial Controller of Beijing Water Conservancy Material Supply Company. Ms. Huang graduated from Beijing Commercial College with a diploma in accountancy. Ms. Huang is an assistant accountant in the PRC. Ms. Huang has over 34 years of accounting experience. She joined the Group in July 2003.

Mr. Chan Chi Shing, aged 50, is the chief accountant of Kwun Kee Tailor Company Limited since 1993. Mr. Chan has over 25 years of accounting experience. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and senior associate member of Australian Institute of Banking and Finance. He joined the Group in September 2004.

Non-executive Directors

Mr. Zhao Hai Hu, aged 50, was graduated from Zhejiang University and holds a master degree in engineering. He is a general manager of an irrigation technology company which involves in the research and development of irrigation and hydroelectric technology, specialising in irrigation, water supply project management, research and development. Mr. Zhao acted as an assistant to the head of North China College of Water Conservancy and Hydro Power, he was also the head of the infra-structure department and the head of the personnel department. Mr. Zhao has over 26 years of engineering experience. He joined the Group in July 2003.

Mr. Chiu Shun Pui, Andrew, aged 51, graduated from Ryerson Polytechnic Institute, Canada, major in Electronic Engineering Control System. Mr. Chiu has over 22 years of experience in electronic field, including R&D and manufacturing at senior management level. He joined the Group in October 2003.

Mr. Zhou Wen Zhi, aged 64, was graduated from Liaoning Agriculture University and was the vice minister of Ministry of Water Resources of PRC from 1991 until his retirement in June 2001. Mr. Zhou has over 10 years' experience in the development and construction of PRC water resources. He joined the Group in October 2004.

SENIOR MANAGEMENT

Mr. Tam Chun Yip, aged 30, is the Financial Controller and Company Secretary of the Company. Mr. Tam graduated from the Hong Kong University of Science & Technology and is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He was an accountant in an international accounting firm in Hong Kong for 5 years. He joined the Group in September 2003.

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2005.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders in the special general meeting held on 6 December 2004, the Company changed its name from "China Silver Dragon Group Limited" to "China Water Affairs Group Limited" to reflect the change in the business focus of the Group. The certificate of incorporation on change of name issued by the Registrar of Companies in Bermuda has certified that the Company's name was changed and registered with effect from 10 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2005 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 20, 21 and 26 respectively.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and of the assets, liabilities and minority interests of the Group prepared on the bases set out in the note below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
TURNOVER	<u>48,467</u>	<u>33,187</u>	<u>123,464</u>	<u>256,546</u>	<u>275,622</u>
(LOSS)/PROFIT FROM OPERATIONS BEFORE TAXATION	<u>(29,802)</u>	<u>(99,338)</u>	<u>(268,317)</u>	<u>(65,359)</u>	<u>9,769</u>
Taxation	<u>(1,185)</u>	<u>–</u>	<u>2,520</u>	<u>934</u>	<u>(2,364)</u>
(LOSS)/PROFIT FROM OPERATIONS AFTER TAXATION	<u>(30,987)</u>	<u>(99,338)</u>	<u>(265,797)</u>	<u>(64,425)</u>	<u>7,405</u>
Minority interests	<u>1,718</u>	<u>1,720</u>	<u>2,387</u>	<u>1,030</u>	<u>180</u>
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>(29,269)</u>	<u>(97,618)</u>	<u>(263,410)</u>	<u>(63,395)</u>	<u>7,585</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS	64,568	87,343	119,658	162,841	176,970
CURRENT ASSETS	47,077	10,880	26,516	197,497	177,940
CURRENT LIABILITIES	(58,639)	(39,702)	(82,796)	(64,259)	(123,646)
NET CURRENT ASSETS/(LIABILITIES)	(11,562)	(28,822)	(56,280)	133,238	54,294
TOTAL ASSETS LESS CURRENT LIABILITIES	53,006	58,521	63,378	296,079	231,264
NON-CURRENT LIABILITIES	(10,480)	(28,446)	(9,000)	(16,589)	(12,924)
MINORITY INTERESTS	(7,476)	(9,791)	–	(2,387)	(3,417)
	35,050	20,284	54,378	277,103	214,923

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda where the Company continued registration as an exempted company which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively. Details of the distributable reserves of the Company are set out in note 29 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sale to the Group's five largest customers accounted for approximately 72% of the total sales for the year and sales to the largest customer included therein amounted to approximately 57%. Purchases from the Group's five largest suppliers accounted for approximately 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 31%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were as follows:

Executive Directors

Mr. Duan Chuan Liang (*Chairman*)

Mr. Tsui Chi Kin

Non-executive directors

Mr. Chiu Shun Pui, Andrew

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi (appointed on 19 October 2004)

Independent non-executive directors

Mr. Chan Chi Shing (appointed on 30 September 2004)

Mr. Chen Lizhong

Ms. Huang Shao Yun

In accordance with clause 87 of the Company's Bye-laws, Mr. Tsui Chi Kin and Mr. Chiu Shun Pui, Andrew, Mr. Chen Lizhong will retire at the forthcoming Annual General Meeting and Mr. Tsui Chi Kin and Mr. Chen Lizhong, being eligible, will offer themselves for re-election. Apart from Mr Duan Chuan Liang, all the other directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's Bye-laws.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company and the senior management of the Group are set out on page 9 and 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 March 2005, none of the Directors has entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in notes 24 and 33 to the financial statements, no director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 March 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) which had been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listing Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (<i>Note</i>)	Corporate	129,432,301	0	26.89%
Mr. Tsui Chi Kin	Personal	11,250,000	0	2.34%

Note: These Shares are beneficially owned by and registered in the name of Asset Full, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

(b) Underlying shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang	Personal	1,600,000	0	0.33%
Mr. Tsui Chi Kin	Personal	3,500,000	0	0.73%
Mr. Chiu Shun Pui, Andrew	Personal	2,200,000	0	0.46%
Mr. Zhao Hai Hu	Personal	2,600,000	0	0.54%
Mr. Zhou Wen Zhi	Personal	870,000	0	0.18%

Note: Options to acquire ordinary shares of the Company, further details of which are set out in the section headed "Share Option Schemes" below.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 28 to the financial statements.

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

	At 1.4.2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31.3.2005	Date of grant	Exercise period	Exercise price HK\$
Directors								
Duan Chuan Liang	-	1,600,000	-	-	1,600,000	1.2.2005	1.8.2005 to 31.1.2007	0.41
Tsui Chi Kin	-	3,500,000	-	-	3,500,000	1.2.2005	1.8.2005 to 31.1.2007	0.41
Chiu Shun Pui, Andrew	-	2,200,000	-	-	2,200,000	1.2.2005	1.8.2005 to 31.1.2007	0.41
Zhao Hai Hu	-	2,600,000	-	-	2,600,000	1.2.2005	1.8.2005 to 31.1.2007	0.41
Zhou Wen Zhi	-	870,000	-	-	870,000	1.2.2005	1.8.2005 to 31.1.2007	0.41
Other Employees	-	4,540,000	-	-	4,540,000	1.2.2005	1.8.2005 to 31.1.2007	0.41
Total	-	15,310,000	-	-	15,310,000			

The closing price of the shares immediately before the date of the grant was HK\$0.395.

The directors do not consider appropriate to disclose value of the options granted to the directors and employees because of the absence of a ready available market value of the share options on the ordinary shares of the Company and a number of subjective assumptions of expected future performance input to the theoretical model. Therefore, the directors were unable to arrive an accurate assessment of the value of these share options.

Other than as disclosed in the sections headed "Directors' and chief executives' interests in equity or debt securities" and "Share Option Schemes" above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO) including interests or short positions which the Directors and the chief executives were taken or deemed to have under the provisions of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the sections headed "Directors' and chief executives' interests in equity or debt securities" and "Share Option Schemes" above, at no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company 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 other member of the Group.

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Asset Full Resources Limited	Beneficial	129,432,301	0	26.89%

Note: These Shares are beneficially owned by and registered in the name of Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

Save as disclosed above, as at 31 March 2005, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 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 other member of the Group or any options in respect of such capital.

MANAGEMENT CONTRACTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 33 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the "Code") as set out in Appendix 14 (in force prior to 1 January 2005) of the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of the directors and all directors confirmed they have complied with the required standard set out in the Model Code during the year ended 31 March 2005.

The Company has received, from each of the independent non-executive directors, annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors as independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that the Company has maintained a sufficient public float throughout the year ended 31 March 2005.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Audit Committee"). The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2005. The members of the Audit Committee comprise three independent non-executive directors, namely Mr. Chan Chi Shing, Ms. Huang Shao Yun and Mr. Chen Lizhong.

AUDITORS

In April 2004, the Company's former auditors Messrs. Ernst & Young resigned, and Messrs. RSM Nelson Wheeler were appointed as auditors of the Company. Apart from this, there has been no change in auditors of the Company in any of the three preceding years. A resolution will be submitted to the annual general meeting to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company.

On behalf of the board

Duan Chuan Liang

Chairman

Hong Kong, 27 July 2005

RSM! Nelson Wheeler

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Certified Public Accountants

**TO THE SHAREHOLDERS OF
CHINA WATER AFFAIRS GROUP LIMITED
(FORMERLY KNOWN AS CHINA SILVER DRAGON GROUP LIMITED)**

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO GOING CONCERN

We have considered the adequacy of the disclosures made in note 2(a) to the financial statements which explains that in preparing the financial statements, the directors have given consideration to the future financing of the Group. As explained in note 2(a) to the financial statements, for the year ended 31 March 2005, the Group incurred a consolidated loss attributable to shareholders of HK\$29,269,000 and had net current liabilities of HK\$11,562,000 as at 31 March 2005.

The financial statements have been prepared on a going concern basis, the validity of which depends on (i) the Group's ability to attain profitable and positive cash flow operation in the longer term and (ii) financial support from a substantial shareholder and joint venture partner. The financial statements do not include any adjustments that would result from the failure of obtaining a profitable operation and financial support. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
27 July 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005

CHINA WATER AFFAIRS GROUP LIMITED

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	4	48,467	33,187
Cost of sales		(44,732)	(53,402)
Gross profit/(loss)		3,735	(20,215)
Other revenue	4	2,375	291
Selling and distribution costs		(273)	(575)
Administrative expenses		(12,668)	(13,402)
Other operating expenses		(4,821)	(627)
Loss from operations	5	(11,652)	(34,528)
Finance costs	6	(2,998)	(2,424)
Share of losses of associates		(3,292)	(9,654)
Loss on deconsolidation of subsidiaries		–	(14,020)
Impairment losses on interests in associates	19	(5,650)	–
Impairment losses on investments – long term		–	(3,000)
– short term	18	(3,517)	(19,631)
Loss on deemed partial disposal of interests in associates	19	(2,693)	–
Impairment of goodwill		–	(16,081)
Loss from operations before taxation		(29,802)	(99,338)
Taxation	7(a)	(1,185)	–
Loss from operations after taxation		(30,987)	(99,338)
Minority interests		1,718	1,720
Loss attributable to shareholders	8	(29,269)	(97,618)
Loss per share	9	HK cents	HK cents
Basic		(7)	(47)
Diluted		N/A	N/A

The notes on pages 27 to 62 form an integral part of these financial statements.

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Fixed assets	12	59,927	56,828
Non-current portion of trade and bills receivables	17	3,441	–
Interests in associates	19	1,200	12,835
Deposit for acquisition of subsidiaries	15	–	17,680
Long term investments	14	–	–
		64,568	87,343
Current assets			
Inventories	16	2,160	853
Trade and bills receivables	17	6,498	14
Short term investment	18	–	3,517
Prepayments, deposits and other receivables		18,180	3,299
Bank and cash balances	20	20,239	3,197
		47,077	10,880
Current liabilities			
Trade payables	21	1,431	724
Accrued liabilities and other payables		19,501	12,671
Bank loans	22	10,094	10,566
Current portion of other loans	23	8,103	6,956
Due to a shareholder	24	–	3,130
Due to a director	24	4,751	1,811
Due to a related company	24	–	472
Due to minority shareholders of subsidiaries	24	11,381	372
Promissory notes	25	–	3,000
Convertible note	26	1,061	–
Taxation		2,317	–
		58,639	39,702
Net current liabilities		(11,562)	(28,822)
Total assets less current liabilities		53,006	58,521
Non-current liabilities			
Non-current portion of other loans	23	–	7,358
Promissory notes	25	10,480	10,480
Convertible note	26	–	10,608
		10,480	28,446
Minority interests		7,476	9,791
NET ASSETS		35,050	20,284

CONSOLIDATED BALANCE SHEET

At 31 March 2005

CHINA WATER AFFAIRS GROUP LIMITED

	Note	2005 HK\$'000	2004 HK\$'000
Capital and reserves			
Issued capital	28	4,813	2,920
Reserves	29(a)	30,237	17,364
SHAREHOLDERS' FUNDS		35,050	20,284

Approved by the Board of Directors on 27 July 2005

DUAN Chuan Liang
Director

TSUI Chi Kin
Director

The notes on pages 27 to 62 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

CHINA WATER AFFAIRS GROUP LIMITED

For the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operations before taxation	(29,802)	(99,338)
Adjustments for:		
Finance costs	2,998	2,424
Share of losses of associates	3,292	9,654
Loss on deconsolidation of subsidiaries	–	14,020
Impairment losses on investments	3,517	22,631
Interest income	(8)	(2)
Depreciation	8,897	3,350
Amortisation of goodwill	–	(103)
Gain on disposal of fixed assets	(1,701)	–
Loss on disposal of fixed assets	1,078	–
Write-off of fixed assets	–	711
Impairment losses on interests in associates	5,650	–
Impairment of goodwill	–	16,081
Provision for non-recoverability of prepayments	1,002	–
Impairment loss on fixed assets	2,740	–
Loss on deemed partial disposal of interests in associates	2,693	–
Operating profit/(loss) before working capital changes	356	(30,572)
(Increase)/decrease in inventories	(1,290)	25,395
(Increase)/decrease in trade and bills receivables	(5,179)	1,739
Decrease in prepayments, deposits and other receivables	6,555	1,096
Increase/(decrease) in trade payables	1	(12,018)
Decrease in accrued liabilities and other payables	(3,453)	(4,733)
Cash used in operations	(3,010)	(19,093)
Interest paid on bank and other borrowings	(1,641)	(1,039)
Interest element on finance lease rental payments	–	(112)
Interest on promissory notes and convertible note	(1,357)	(740)
Other interest paid to trade creditors	–	(533)
Hong Kong profits tax paid	–	(60)
Net cash outflow from operating activities	(6,008)	(21,577)

	Note	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		8	2
Purchase of fixed assets		(9,243)	(5,940)
Proceeds from disposal of fixed assets		666	–
Acquisition of a subsidiary in the People's Republic of China ("PRC")	30(b)	13	508
Deposits paid for acquisition of subsidiaries		–	(1,768)
Net cash outflow from investing activities		(8,556)	(7,198)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of promissory notes		(2,925)	–
Proceeds from issue of convertible bonds		–	13,500
Proceeds from issue of shares		44,203	25,123
Share issue expenses		(1,681)	(649)
Repayment to a shareholder		(3,130)	(1,500)
Advance from a director		2,940	1,811
Other loans raised		–	3,003
(Repayment to)/advance from a related company		(472)	472
Advance from minority shareholders of subsidiaries		–	372
Repayment of other loans		(3,286)	(2,038)
Repayment to minority shareholders		(3,571)	–
Repayment of bank loans and mortgage loans		(472)	(4,836)
Capital element of finance lease rental payments		–	(3,409)
Net cash inflow from financing activities		31,606	31,849
NET INCREASE IN CASH AND CASH EQUIVALENTS		17,042	3,074
CASH AND CASH EQUIVALENTS AT 1 APRIL		3,197	123
CASH AND CASH EQUIVALENTS AT 31 MARCH		20,239	3,197
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		20,239	3,197

The notes on pages 27 to 62 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CHINA WATER AFFAIRS GROUP LIMITED

For the year ended 31 March 2005

	Reserves											
	Issued capital	Share premium account	Statutory reserve	Enterprise development fund	Exchange fluctuation reserve	Goodwill reserve	Capital reserve	Contributed surplus	Fixed assets revaluation reserve	Accumulated losses	Total reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	306,256	-	599	600	(78)	(16,081)	340	-	-	(237,258)	(251,878)	54,378
Capital restructuring	(304,725)	-	-	-	-	-	-	70,725	-	234,000	304,725	-
Conversion of convertible bonds	600	12,900	-	-	-	-	-	-	-	-	12,900	13,500
Issue of shares	789	24,334	-	-	-	-	-	-	-	-	24,334	25,123
Share issue expenses	-	(649)	-	-	-	-	-	-	-	-	(649)	(649)
Surplus on revaluation of fixed assets	-	-	-	-	-	-	-	-	10,590	-	10,590	10,590
Impairment of goodwill eliminated against consolidated reserves	-	-	-	-	-	16,081	-	-	-	-	16,081	16,081
Realised upon deconsolidation of subsidiaries	-	-	(599)	(600)	78	-	-	-	-	-	(1,121)	(1,121)
Loss for the year	-	-	-	-	-	-	-	-	-	(97,618)	(97,618)	(97,618)
At 31 March 2004	2,920	36,585	-	-	-	-	340	70,725	10,590	(100,876)	17,364	20,284
Conversion of convertible note	133	9,415	-	-	-	-	-	-	-	-	9,415	9,548
Issue of shares on open offer	1,460	27,743	-	-	-	-	-	-	-	-	27,743	29,203
Placing and subscription of shares	300	14,700	-	-	-	-	-	-	-	-	14,700	15,000
Share issue expenses	-	(1,681)	-	-	-	-	-	-	-	-	(1,681)	(1,681)
Realised upon disposal of fixed assets	-	-	-	-	-	-	-	-	(1,257)	1,257	-	-
Impairment of fixed assets eliminated against fixed assets revaluation reserves	-	-	-	-	-	-	-	-	(8,035)	-	(8,035)	(8,035)
Loss for the year	-	-	-	-	-	-	-	-	-	(29,269)	(29,269)	(29,269)
At 31 March 2005	4,813	86,762	-	-	-	-	340	70,725	1,298	(128,888)	30,237	35,050
Retained by:												
Company and subsidiaries	4,813	86,762	-	-	-	-	340	70,725	1,298	(105,989)	53,136	57,949
Associates	-	-	-	-	-	-	-	-	-	(22,899)	(22,899)	(22,899)
At 31 March 2005	4,813	86,762	-	-	-	-	340	70,725	1,298	(128,888)	30,237	35,050
Company and subsidiaries	2,920	36,585	-	-	-	-	340	70,725	10,590	(83,962)	34,278	37,198
Associates	-	-	-	-	-	-	-	-	-	(16,914)	(16,914)	(16,914)
At 31 March 2004	2,920	36,585	-	-	-	-	340	70,725	10,590	(100,876)	17,364	20,284

The notes on pages 27 to 62 form an integral part of these financial statements.

BALANCE SHEET

At 31 March 2005

CHINA WATER AFFAIRS GROUP LIMITED

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investments in subsidiaries	13	27,199	38,042
Current assets			
Prepayments, deposits and other receivables		247	123
Bank and cash balances		14,954	358
		<u>15,201</u>	<u>481</u>
Current liabilities			
Accrued liabilities and other payables		4,317	2,611
Current portion of other loans	23	–	3,003
Due to a director	24	–	1,811
Convertible note	26	1,061	–
		<u>5,378</u>	<u>7,425</u>
Net current assets/(liabilities)		<u>9,823</u>	<u>(6,944)</u>
Total assets less current liabilities		<u>37,022</u>	<u>31,098</u>
Non-current liabilities			
Convertible note	26	–	10,608
NET ASSETS		<u>37,022</u>	<u>20,490</u>
Capital and reserves			
Issued capital	28	4,813	2,920
Reserves	29(b)	32,209	17,570
SHAREHOLDERS' FUNDS		<u>37,022</u>	<u>20,490</u>

Approved by the Board of Directors on 27 July 2005

DUAN Chuan Liang
Director

TSUI Chi Kin
Director

The notes on pages 27 to 62 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The Company was previously incorporated in the Cayman Islands as an exempted company under the Cayman Islands Companies Law with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed by the shareholders in an extraordinary general meeting held on 9 June 2003 and approved by the Registrars of Companies in the Cayman Islands and Bermuda on 9 July 2003, the Company de-registered from the Cayman Islands under Section 226 of the Companies Law and re-domiciled in Bermuda under Section 132C of the Companies Act 1981 of Bermuda as an exempted company.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Notwithstanding the Group incurred a consolidated loss attributable to shareholders of HK\$29,269,000 for the year ended 31 March 2005 and had net current liabilities of HK\$11,562,000 as at 31 March 2005, these financial statements have been prepared on a going concern basis taking into account the placement of 57,600,000 ordinary shares of the Company on 4 April 2005 at a price of HK\$0.50 per share to strengthen the capital base of the Company, as the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

- (i) the Group is able to attain profitable and positive cash flow operation in the longer term;
- (ii) continuing financial support received from a substantial shareholder; and
- (iii) the joint venture partner of a joint venture company formed after the year end has agreed to share with the Company the banking facilities obtained by the joint venture partner and provide guarantee of not less than RMB100 million to the joint venture company in Jiangxi.

The accounting policies used in the preparation of the financial statements are consistent with that of the previous year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(b) Impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the income statement and also any related accumulated foreign currency translation reserve.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are those entities 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.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The Group's investments in associated companies include the Group's share of the net assets of the associated companies (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition results of associated companies is included in the income statement.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the income statement.

(c) Long term investments

Long term investments are unlisted equity securities, intended to be held for a continuing strategic or long term purpose, and are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the income statement in the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the income statement to the extent of the amounts previously charged.

(d) Short term investments

Short term investments are investments in unlisted equity securities held for resale and are stated at their fair values, as estimated by the directors, on an individual investment basis. The gains or losses arising from changes in the fair value of a security is credited or charged to the income statement in the period in which they arise.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed to customers.
- (ii) Revenue from subcontracting services is recognised when the services are performed.
- (iii) Revenue arising from water supply is recognised based on water supplied as recorded by meters read during the year.
- (iv) Revenue from sewage treatment is recognised according to price and capacity as agreed with the environmental authority in the PRC.
- (v) Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.
- (vi) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(f) Fixed assets

Leasehold land and buildings and other fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Leasehold land and buildings and other fixed assets are depreciated on the straight-line basis to write off the cost or valuation of each asset over their estimated useful life less any estimated residual value. The estimated useful lives used for this purpose are as follows:

Leasehold land and buildings	50 years or over the lease term, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Plant and machinery	6 to 15 years
Water pipelines	10 to 20 years
Moulds	4 to 6 years
Furniture, equipment and motor vehicles	5 years
Construction in progress	–

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Fixed assets (Continued)

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Major costs incurred in restoring an asset to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

Construction in progress represents water pipelines under construction and is stated at cost less any impairment losses. Cost represents construction costs and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(g) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

(h) Provisions and contingent liabilities

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

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(j) Foreign currency translation**

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(l) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

(m) Cash and cash equivalents

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

(n) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Employee benefits

- (i) The Group's contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the income statement as incurred.
- (ii) Pursuant to the PRC laws and regulations, contributions to the retirement benefit scheme for staff of the Company's subsidiaries operating in the PRC are to be made monthly to a government agency at a certain percentage of the basic salaries of the employees. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the income statement as they become payable.
- (iii) When the Group grants employees options to acquire shares of the Company at a nominal consideration, no employee benefit or obligation at the date of grant. When the options are exercised, equity is increased by the amount of proceeds received.

(p) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(q) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(r) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. TURNOVER AND REVENUE

The Group is principally engaged in the manufacture of electronic products, provision of water supply and sewage treatment during the year. Revenues recognised during the year are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of goods	8,185	15,176
Subcontracting income	27,635	17,395
Water supply	3,360	616
Water supply related installation and construction revenue	3,327	–
Sewage treatment	5,960	–
	48,467	33,187
Other revenue		
Sale of scrap materials	1	90
Interest income	8	2
Gain on disposal of fixed assets	1,701	–
Installation income	198	–
Sundry income	467	199
	2,375	291
Total revenue	50,842	33,478

Segmental information

Segment information is required by SSAP 26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis; and (ii) on a secondary segment reporting basis.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

In determining the Group's geographical segments, revenue and results are attributable to the segments based on the location of the customers' operations, and assets are attributed to the segments based on the location of the assets.

4. TURNOVER AND REVENUE (Continued)

Segmental information (Continued)

Business segments

	Electronic products		Electronic components		City water supply		Sewage treatment		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue										
External customers	35,820	32,571	-	-	6,687	616	5,960	-	48,467	33,187
Installation income	-	-	-	-	198	-	-	-	198	-
Other revenue	2,068	216	-	-	4	73	22	-	2,094	289
Total	37,888	32,787	-	-	6,889	689	5,982	-	50,759	33,476
Segment results	(5,573)	(23,845)	-	(799)	(3,237)	(1,643)	3,500	-	(5,310)	(26,287)
Interest income									8	2
Unallocated income									75	-
Unallocated expenses									(6,425)	(8,243)
Loss from operations									(11,652)	(34,528)
Finance costs									(2,998)	(2,424)
Impairment losses										
on investments									(3,517)	(22,631)
Impairment of goodwill	-	-	-	(16,081)	-	-	-	-	-	(16,081)
Impairment losses on										
interests in associates	-	-	(5,650)	-	-	-	-	-	(5,650)	-
Loss on deconsolidation										
of subsidiaries	-	(16,670)	-	2,650	-	-	-	-	-	(14,020)
Share of losses of associates	-	-	(3,292)	(9,654)	-	-	-	-	(3,292)	(9,654)
Loss on deemed partial disposal										
of interests in associates	-	-	(2,693)	-					(2,693)	-
Loss from operations										
before taxation									(29,802)	(99,338)
Taxation									(1,185)	-
Loss from operations										
after taxation									(30,987)	(99,338)
Minority interests									1,718	1,720
Loss attributable to										
shareholders									(29,269)	(97,618)

4. TURNOVER AND REVENUE (Continued)

Segmental information (Continued)

Business segments (Continued)

	Electronic products		Electronic components		City water supply		Sewage treatment		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment assets	15,267	31,550	-	-	34,538	31,470	39,854	-	89,659	63,020
Interests in associates	-	-	1,200	12,835	-	-	-	-	1,200	12,835
Deposit for acquisition of subsidiaries	-	-	-	-	-	-	-	17,680	-	17,680
Unallocated assets	-	-	-	-	-	-	-	-	20,786	4,688
Total	15,267	31,550	1,200	12,835	34,538	31,470	39,854	17,680	111,645	98,223
Segment liabilities	1,372	10,500	-	-	6,108	3,346	15,933	-	23,413	13,846
Unallocated liabilities	-	-	-	-	-	-	-	-	45,706	54,302
Total liabilities	1,372	10,500	-	-	6,108	3,346	15,933	-	69,119	68,148
Other segment information										
Depreciation and amortisation	5,525	2,649	-	(103)	2,074	701	1,298	-	8,897	3,247
Capital expenditure	494	22,169	-	-	8,578	45,096	171	-	9,243	67,265
Impairment loss on fixed assets	-	-	-	-	2,740	-	-	-	2,740	-
Loss on disposal of fixed assets	1,078	-	-	-	-	-	-	-	1,078	-
Write-off of fixed assets	-	711	-	-	-	-	-	-	-	711
Provision for non-recoverability of prepayments	1,002	-	-	-	-	-	-	-	1,002	-

4. TURNOVER AND REVENUE (Continued)**Segmental information (Continued)****Geographical segment**

	Asia		Europe		North and South Americas		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External customers	25,184	15,641	8,350	5,218	14,933	12,176	-	152	48,467	33,187
Segment results	(1,688)	(16,921)	(507)	(1,356)	(3,115)	(7,791)	-	(219)	(5,310)	(26,287)
Other segment information										
Segment assets	111,174	98,209	-	-	471	14	-	-	111,645	98,223
Capital expenditure	9,243	67,265	-	-	-	-	-	-	9,243	67,265

5. LOSS FROM OPERATIONS

Loss from operations is stated after crediting and charging the following:

	Group	
	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold [#]	36,024	52,354
Depreciation	8,897	3,350
Operating leases in respect of leasehold land and buildings	2,536	2,348
Auditors' remuneration	650	420
Staff costs (excluding directors' remuneration – note 10):		
Salaries and wages	14,909	11,632
Pension scheme contributions	309	17
	15,218	11,649
Amortisation of goodwill	–	(103)
Exchange losses, net	13	18
Impairment loss on fixed assets	2,740	–
Loss on disposal of fixed assets	1,078	–
Write-off of fixed assets	–	711
Provision for non-recoverability of prepayments	1,002	–
	15,218	11,649

[#] Cost of inventories sold includes HK\$17,355,000 (2004: HK\$11,926,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	552	1,039
Interest on other loans	1,089	–
Interest on promissory notes and convertible note	1,357	740
Interest on finance leases	–	112
Other interest paid to trade creditors	–	533
	2,998	2,424

7. TAXATION

(a) Taxation in the income statement represents:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current year		
– Hong Kong profits tax	53	–
– Overseas taxation	1,132	–
Deferred tax	–	–
	1,185	–

Hong Kong profits tax is provided at 17.5% (2004: 17.5%) based on the assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Loss before taxation	29,802	99,338
Tax at applicable rate of 17.5%	(5,215)	(17,384)
Tax effect of income that is not taxable in determining current year's taxable profits	(5,145)	(68,995)
Tax effect of expenses that is not deductible in determining current year's taxable profits	9,730	82,081
Tax effect of deferred tax assets not recognised	–	4,432
Utilisation of tax losses not previously recognised	(69)	–
Tax effect of unused tax losses	229	–
Tax concession	(133)	–
Tax effect of temporary differences unrecognised	1,255	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	533	–
Increase in unrecognised opening deferred tax assets resulting from an increase in tax rate	–	(134)
Taxation for the year	1,185	–

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$35,538,000 (2004: HK\$419,732,000) which has been dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders for the year of HK\$29,269,000 (2004: HK\$97,618,000) and on the weighted average number of 394,258,257 ordinary shares in issue (2004: 207,316,293) throughout the year.

The diluted loss per share for the year ended 31 March 2004 and 2005 was not shown as the ordinary shares issuable under outstanding convertible note and share options were anti-dilutive.

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS**(a) Directors' emoluments**

The directors of the Company who are also directors or employees of the subsidiaries comprising the Group received emoluments during the year as follows:

	2005 HK\$'000	2004 HK\$'000
Fees	144	109
Basic salaries, bonuses, allowances and benefits in kind	2,035	1,762
Pension scheme contributions	25	11
	<u>2,204</u>	<u>1,882</u>

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

The number of executive directors and non-executive directors of the Company whose emoluments fell within the following bands are as follows:

	2005	2004
Nil to HK\$1,000,000	8	7
HK\$1,000,001 to HK\$1,500,000	-	1
	<u>8</u>	<u>8</u>

Details of the options granted to directors of the Company during the year are set out in the section "Share Option Schemes" in the Directors' Report.

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)**(b) Five highest paid individuals**

The five highest paid individuals in the Group during the year included three directors (2004: two directors), details of whose emoluments have been disclosed above. The emoluments paid to the remaining non-directors, highest paid individuals for the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, bonuses, allowances and benefits in kind	1,010	614
Pension scheme contributions	24	16
	<u>1,034</u>	<u>630</u>

The number of the remaining highest paid individuals whose emoluments fell within the following band is as follows:

	2005	2004
Nil to HK\$1,000,000	<u>2</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the directors or any of the two highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. RETIREMENT BENEFITS

According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000 the Group is required to participate in MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

Employees of the Group in the PRC participated in retirement benefit plans (社會保險基金) under which the Group is required to make monthly contributions based on certain percentages of the applicable payroll costs.

12. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Water pipelines HK\$'000	Moulds HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation								
At 1 April 2004	2,318	5,912	15,670	18,364	15,957	318	3,279	61,818
Additions	1,248	-	2,136	79	233	261	5,286	9,243
Acquisition of a subsidiary	4,659	-	25,459	-	-	206	-	30,324
Disposals	-	-	(10,816)	-	(1,562)	(345)	(348)	(13,071)
Transfer	-	-	-	3,638	-	-	(3,638)	-
Distribution (note (b))	(2,318)	(5,892)	-	-	-	(215)	-	(8,425)
At 31 March 2005	5,907	20	32,449	22,081	14,628	225	4,579	79,889
Accumulated depreciation								
At 1 April 2004	348	888	1,587	460	1,639	68	-	4,990
Charge for the year	626	1,184	3,891	1,078	1,974	144	-	8,897
Acquisition of a subsidiary	153	-	1,275	-	-	17	-	1,445
Distribution (note (b))	(811)	(2,062)	-	-	-	(76)	-	(2,949)
Disposals	-	-	(3,155)	-	-	(41)	-	(3,196)
At 31 March 2005	316	10	3,598	1,538	3,613	112	-	9,187
Impairment								
At 1 April 2004	-	-	-	-	-	-	-	-
Increase for the year	-	-	2,204	536	8,035	-	-	10,775
At 31 March 2005	-	-	2,204	536	8,035	-	-	10,775
Net book value								
At 31 March 2005	5,591	10	26,647	20,007	2,980	113	4,579	59,927
At 31 March 2004	1,970	5,024	14,083	17,904	14,318	250	3,279	56,828

The analysis of the cost or valuation at 31 March 2005 of the above assets are as follows:

At cost	5,907	20	32,449	22,081	2,646	154	4,579	67,836
At valuation	-	-	-	-	11,982	71	-	12,053
	5,907	20	32,449	22,081	14,628	225	4,579	79,889

12. FIXED ASSETS (Continued)

- (a) During the year ended 31 March 2004, certain moulds and equipment were acquired by a newly established subsidiary in the PRC for the manufacture of electronic products. At 31 March 2004, these moulds and equipment were revalued on the fair market value of continued use by Grant Sherman Appraisal Limited at RMB14,107,000 (equivalent to HK\$13,310,000). A surplus on revaluation of approximately HK\$10,590,000 arising from the above valuation had been charged to the fixed assets revaluation reserve. Had the moulds and the equipment been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$1,985,000 (2004: HK\$2,720,000).

After one year of operation in view of continued losses in the electronic products segment, the directors assessed the value in use of these moulds and equipment using the future discounted net cash inflow of the subsidiary and noted an impairment loss of approximately HK\$8,035,000 be recognised in the fixed assets revaluation reserve. The discount rate used in estimating the cash flow is approximately 12%.

- (b) Fixed assets of a 55% owned subsidiary incorporated in the British Virgins Islands ("BVI") were distributed to its shareholders on 31 March 2005 in proportionate ratio of respective shareholdings.
- (c) The Group's leasehold land and buildings included above are held under medium term leases in the PRC.
- (d) During the year, the directors have carried out a review on the value in use of plant and machinery and water pipelines of a loss making subsidiary engaged in water supply using the future discounted net cash inflow of the subsidiary. An impairment loss of HK\$2,740,000 was recognised in the income statement. The discount rate used in estimating the cash flow is approximately 12%.

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	95,229	95,229
Less: Provision for impairment	(77,800)	(77,800)
	17,429	17,429
Due from subsidiaries (<i>note b</i>)	444,370	425,613
Less: Provision for impairment	(434,600)	(405,000)
	9,770	20,613
	27,199	38,042

13. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Details of the principal subsidiaries at 31 March 2005 are as follows:

Company	Place of incorporation/ principal place of operation	Attributable equity interest	Issued and fully paid share capital/ registered capital	Principal activities
Held directly:				
Cedar Base (BVI) Limited	BVI	100%	Ordinary US\$200	Investment holding
Superwise Business Limited	BVI/ Hong Kong	100%	Ordinary US\$100	Investment holding
Held indirectly:				
Cedar Base International Limited	Hong Kong	100%	Ordinary HK\$10	Trading of electronic products
Cedar Promotions Company Limited	Hong Kong	100%	Ordinary HK\$10,000	Trading of electronic products and investment holding
Graham Industrial Limited	BVI/ The PRC	55%	Ordinary US\$100	Provision of subcontracting services
China Silver Dragon Group Limited (formerly known as China Water Affairs Group Limited)	Hong Kong	100%	Ordinary HK\$2	Investment holding
China Water Supply Group Limited	Hong Kong	100%	Ordinary HK\$2	Investment holding
China Environmental Water Holdings Limited	Hong Kong	100%	Ordinary HK\$2	Inactive
Hong Kong Water Affairs Investments Limited	Hong Kong	100%	Ordinary HK\$2	Investment holding
Limbrick Investment Limited	BVI/ Hong Kong	100%	Ordinary US\$1	Investment holding

13. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Details of the principal subsidiaries at 31 March 2005 are as follows: (Continued)

Company	Place of incorporation/ principal place of operation	Attributable equity interest	Issued and fully paid share capital/ registered capital	Principal activities
廣東仁化銀龍供水有限公司*	The PRC	73%	Registered capital RMB17,260,000	Water supply
東莞銀龍電子有限公司#	The PRC	100%	Registered capital HK\$2,100,000	Manufacture and trading of electronic products
河南鹿邑銀龍供水有限公司#	The PRC	100%	Registered capital RMB14,000,000	Water supply
深圳銀龍水務有限公司*	The PRC	80%	Registered capital RMB10,000,000	Inactive
新樂市升美水淨化有限公司*	The PRC	55%	Registered capital RMB6,000,000	Sewage treatment

* Sino-foreign equity enterprises established in the PRC.

Wholly foreign owned enterprises established in the PRC.

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

(b) Amounts due from subsidiaries are unsecured, interest free and are not repayable within the next twelve months.

14. LONG TERM INVESTMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted equity investments outside Hong Kong, at cost		
Hodgkins Enterprises Limited (<i>note a</i>)	9,000	9,000
Less: Reduction due to a warranty claim (<i>note a</i>)	(6,000)	(6,000)
Less: Provision for impairment	(3,000)	(3,000)
	—	—
Shanghai Jianhua Satellite Communication Co., Ltd	—	23,148
Less: Reclassified to short term investment	—	(23,148)
	—	—
	—	—
	—	—

Note:

- (a) The Group had issued nine promissory notes with an aggregate principal amount of HK\$9,000,000 in consideration for the acquisition of 30% equity interest in Hodgkins Enterprises Limited ("Hodgkins"). A warranty claim of HK\$6,000,000 was raised by the Group against the vendor which resulted in an off-set against the HK\$9,000,000 outstanding promissory notes and investment cost respectively. Due to continued losses of Hodgkins full provision for impairment was made in 2004.
- (b) Particulars of Hodgkins are as follows:

Name	Place of incorporation	Class of shares held	Percentage of equity interest attributable to the Group	Principal activities
Hodgkins	BVI	Ordinary shares	30%	System integration and training

15. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES – GROUP

On 17 December 2003, a wholly owned subsidiary of the Company entered into two sale and purchase agreements pursuant to which the wholly owned subsidiary has agreed to acquire from an independent third party 55% equity interest in 新樂市升美水淨化有限公司(“新樂升美”) and 天津市世昇水治理有限公司(“天津世昇”) both incorporated in the PRC together with the attributable shareholders' loans for a total consideration of HK\$17,680,000. The consideration was settled by cash for HK\$7,072,000 and by convertible note for HK\$10,608,000. Details of the convertible note are set out in note 26.

During the year, 新樂升美 which was acquired at a consideration of HK\$14,960,000 has successfully transformed into a sino-foreign enterprise and became a subsidiary of the Company. The relevant deposit for the consideration was reclassified as investment in subsidiaries and eliminated upon consolidation in the consolidated financial statements. Details of the net assets acquired is set out in note 30(a).

The transformation of 天津世昇 into a sino-foreign enterprise was unsuccessful and the relevant deposit paid of HK\$2,720,000 was reclassified as prepayments, deposits and other receivables at 31 March 2005 to reflect the subsequent disposal of the 55% equity interest and shareholders' loans to an independent third party (note 34(e)).

16. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Material supplies	454	308
Raw materials	1,333	–
Work in progress	18	–
Finished goods	355	545
	2,160	853

17. TRADE AND BILLS RECEIVABLES

	Group	
	2005 HK\$'000	2004 HK\$'000
Trade and bills receivables	9,939	14
Non-current portion	(3,441)	–
Current portion	6,498	14

The Group has a policy of allowing trade customers with credit period normally 30 days. An aged analysis of the trade receivables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 90 days	2,272	8
91 – 180 days	1,552	6
Over 180 days	6,115	–
	9,939	14

18. SHORT TERM INVESTMENT

	Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted equity investment outside Hong Kong, at cost	23,148	23,148
Less: Provision for impairment	(23,148)	(19,631)
	–	3,517

The Group has 10% investment in Shanghai Jianhua Satellite Communication Co., Ltd (“Shanghai Jianhua”) incorporated in the PRC. Shanghai Jianhua is engaged in operation of satellite communication business. The directors after review of the earning potential and financial position of Shanghai Jianhua have considered its performance disappointing. Shanghai Jianhua was reclassified to short term investment as the board will dispose its interest in Shanghai Jianhua when opportunities arise. With respect to the ability in identifying a potential buyer, the directors have suggested full provision in current year.

19. INTERESTS IN ASSOCIATES

	2005	Group
	HK\$'000	2004
		HK\$'000
Share of net assets other than goodwill	6,850	12,835
Less: Provision for impairment	(5,650)	–
	1,200	12,835

On the adoption of SSAP 30, the Group applied the transitional provisions of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. The goodwill so eliminated is as follows:

	Group
	HK\$'000
Cost	
At 1 April 2004 and 31 March 2005	28,550
Accumulated impairment	
At 1 April 2004 and 31 March 2005	28,550
Net book value	
At 31 March 2004 and 31 March 2005	–

19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Held indirectly:				
Electronics Tomorrow Manufactory Inc. ("ETMI")	Corporate	BVI	25.7%	Investment holding
E-Top PCB Limited	Corporate	Hong Kong	25.7%	Trading of printed circuit boards
Plentiful Light Limited	Corporate	BVI/ The PRC	25.7%	Manufacture of printed circuit boards
DongguanYifu Circuit Board Factory ("DG Yifu")	Corporate	The PRC	21.6%	Manufacture of printed circuit boards

During the year, the Group's interest in the above associates (collectively the "ETMI Group") decreased from 35% to 25.7% and the interest in DG Yifu decreased from 29.4% to 21.6% due to the issuance and allotment of new shares to the other shareholders of ETMI. A loss on deemed partial disposal of interest in ETMI Group of HK\$2,693,000 (2004: Nil) was recognised in the income statement.

The interests in associates were disposed after 31 March 2005. Details of the disposal was set out in note 34(b).

The financial statements of the ETMI Group have a financial year ending on 31 December. The consolidated financial statements have been adjusted for material transactions, if any, between these associates and the Group companies between 1 January and 31 March.

19. INTERESTS IN ASSOCIATES (Continued)

The assets and liabilities of ETMI Group as at 31 December 2004 together with the turnover and net loss attributable to shareholders for the year ended 31 December 2004 are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	113,779	141,183
Net loss attributable to shareholders	(18,660)	(19,425)
ASSETS AND LIABILITIES		
Non-current assets	36,450	43,104
Current assets	82,233	86,010
Current liabilities	(78,242)	(68,402)
Non-current liabilities	(3,600)	(7,000)
Minority interests	(8,899)	(8,899)
	27,942	44,813

20. BANK AND CASH BALANCES – GROUP

Included in the bank and cash balances of the Group, HK\$1,692,000 (2004: HK\$1,563,000) were denominated in Renminbi (“RMB”), which was not freely convertible to other currencies. Under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

21. TRADE PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. The aging analysis of trade payables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 90 days	44	11
91 – 180 days	70	–
Over 180 days	1,317	713
	1,431	724

22. BANK LOANS

	Group	
	2005 HK\$'000	2004 HK\$'000
Bank loans repayable within one year		
– secured	10,094	10,566

At 31 March 2005, the bank loans were secured by:

- (a) properties owned by Renhua County of the PRC Government and the joint venture partner of a subsidiary; and
- (b) the right to receive income from water supply of a subsidiary.

23. OTHER LOANS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Other loans repayable within five years				
– secured	–	3,003	–	3,003
– unsecured	8,103	11,311	–	–
	8,103	14,314	–	3,003
Repayable:				
Within one year	8,103	6,956	–	3,003
In the second year	–	–	–	–
In the third to fifth year, inclusive	–	7,358	–	–
	8,103	14,314	–	3,003

The above loans are unsecured, interest charged at two per cent to seven per cent per annum and repayable on demand.

24. DUE TO A SHAREHOLDER, A DIRECTOR, A RELATED COMPANY AND MINORITY SHAREHOLDERS OF SUBSIDIARIES – GROUP AND COMPANY

The amounts due to a shareholder, a director, a related company and minority shareholders of subsidiaries are unsecured, interest free and have no fixed terms of repayment.

25. PROMISSORY NOTES

	Group	
	2005 HK\$'000	2004 HK\$'000
Hodgkins (<i>note a</i>)	–	3,000
Graham Industrial Limited (<i>note b</i>)	10,480	10,480
	10,480	13,480
Current portion of promissory notes	–	(3,000)
	10,480	10,480

Note:

- (a) The Group issued nine promissory notes with an aggregate principal amount of HK\$9,000,000 in consideration for the acquisition of Hodgkins. The promissory notes were unsecured, interest free and were settled on 29 July 2004 (*note 14(a)*).
- (b) On 30 June 2003, the Group issued six promissory notes with an aggregate principal amount of HK\$10,480,000 in consideration for the acquisition of Graham Industrial Limited. The promissory notes are unsecured, interest bearing at seven per cent per annum and are repayable on 29 June 2006.

26. CONVERTIBLE NOTE – GROUP AND COMPANY

On 17 December 2003, the Company issued convertible note in the principal amount of HK\$10,608,000 as consideration of acquisitions of two companies incorporated in the PRC (*note 15*). The convertible note bears interest at six per cent per annum with maturity date of three years from the date of issuance and are repayable after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$0.80 at any time after six months from the date of issuance. Due to the effect of the open offer as set out in *note 28 (A)(e)*, the conversion price was subsequently adjusted to HK\$0.72 according to the adjustment mechanism as stipulated in the terms and conditions of the convertible note. On 22 March 2005, convertible note of HK\$9,547,000 was converted into 13,260,000 ordinary shares of HK\$0.01 each. The remaining balance of the convertible note, amounting to HK\$1,061,000, was repaid to the note holder subsequent to year end on 27 May 2005 and hence reclassified as current liabilities.

27. DEFERRED TAX

At the balance sheet date, the Group has deferred tax assets in respect of unused tax losses of HK\$4,132,000 (2004: HK\$2,889,000) available for offset against future profits. These deferred tax assets have not been recognised due to the unpredictability of future profit streams. Included in the unrecognised deferred tax assets are HK\$56,000 (2004: HK\$333,000) that will expire within the coming four years up to 2008, and HK\$1,154,000 (2004: Nil) that will expire within the coming five years up to 2009. Other losses may be carried forward indefinitely.

28. SHARE CAPITAL**(A) Shares**

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 1 April 2003	10,000,000	1,000,000
Capital restructuring (<i>note a</i>)	10,000,000	(800,000)
Ordinary shares of HK\$0.01 each at 31 March 2004 and 31 March 2005	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 April 2003	3,062,556	306,256
Capital restructuring (<i>note a</i>)	(2,909,428)	(304,725)
Shares issued for conversion of convertible bonds (<i>note b</i>)	60,000	600
Placing of existing shares (<i>note c</i>)	70,000	700
Shares issued for settlement of creditors (<i>note d</i>)	<u>8,900</u>	<u>89</u>
Ordinary shares of HK\$0.01 each at 31 March 2004	292,028	2,920
Issue of shares on open offer (<i>note e</i>)	146,014	1,460
Shares issued upon conversion of convertible note (<i>note 26</i>)	13,260	133
Placing and subscription of shares (<i>note f</i>)	<u>30,000</u>	<u>300</u>
	<u>481,302</u>	<u>4,813</u>

28. SHARE CAPITAL (Continued)**(A) Shares (Continued)**

Note:

- (a) Pursuant to resolutions passed at a special general meeting held on 9 June 2003, a capital restructuring was proposed, approved and became unconditional on 25 July 2003 as follows:
 - (i) A reduction in the issued share capital in the amount of HK\$0.0995 for every issued share at a nominal value of HK\$0.10 each of the Company. The credit will be set-off against the accumulated losses of the Company. Any remaining balance will be credited to the contributed surplus account of the Company;
 - (ii) A subdivision of each authorised, but unissued share of the Company at HK\$0.10 each into 200 shares at HK\$0.0005 each (the "Reduced Share");
 - (iii) A reduction of the authorised share capital of the Company from the original amount of HK\$1,000,000,000 to HK\$200,000,000, which will be represented by 400,000,000,000 Reduced Shares; and
 - (iv) A consolidation of every 20 Reduced Shares of HK\$0.0005 each credited by the capital reduction in (i) and (ii) above into one share of HK\$0.01 each.
- (b) On 20 May 2003 and 18 July 2003, the Company entered into underwriting agreements with an independent placing agent to subscribe for convertible bonds in aggregate principal amounts of HK\$6,000,000 and HK\$7,500,000 respectively. The convertible bonds have the rights to convert into shares at a conversion price of HK\$0.20 and HK\$0.25 per share respectively. All the convertible bonds were converted into 30,000,000 and 30,000,000 shares respectively during the year ended 31 March 2004.
- (c) On 2 October 2003 and 18 February 2004, a shareholder entered into placing agreements with an independent placing agent for the placement of 32,500,000 and 37,500,000 ordinary shares of the Company owned by the shareholder at a price of HK\$0.30 and HK\$0.315 per share respectively. Pursuant to the top-up agreements of the same dates, the shareholder subscribed for 32,500,000 and 37,500,000 new ordinary shares of the Company at a price of HK\$0.30 and HK\$0.315 per share respectively. The placement of shares raised total consideration of approximately HK\$9,750,000 (before expenses) and approximately HK\$11,800,000 (before expenses) respectively.
- (d) On 25 October 2003, the Company entered into eight settlement agreements with eight creditors whereby the Company will issue an aggregate of 8,900,000 shares at HK\$0.40 each to the creditors to settle the outstanding debt owed by the Company to the creditors of an aggregate amount of HK\$3,560,000.
- (e) On 28 April 2004, the Company announced a proposed open offer of new shares on the basis of one share for every two shares at a price of HK\$0.20 per share held on 21 June 2004. The proposed open offer was approved at the special general meeting held on 21 June 2004 and raised a gross proceeds of approximately HK\$29,200,000 (before expenses).
- (f) On 14 March 2005, a shareholder entered into a placing agreement with an independent placing agent for the placement of 30,000,000 ordinary shares of the Company owned by the shareholder at a price of HK\$0.50 per share. Pursuant to a subscription agreement of the same date, the shareholder subscribed for 30,000,000 new ordinary shares of the Company at a price of HK\$0.50 per share. The placement of shares raised total consideration of approximately HK\$15,000,000 (before expenses).

28. SHARE CAPITAL (Continued)

(B) Share option scheme

On 6 September 2002, the share option scheme of the Company adopted on 22 September 1999 ceased to operate and a new share option scheme (the "Scheme") was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option scheme of a company.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholders in the Company's subsidiaries. The Scheme became effective on 6 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

28. SHARE CAPITAL (Continued)**(B) Share option scheme (Continued)**

Movements in share options are as follows:

	Number	
	2005	2004
At 1 April	–	–
Number of share options granted on 1 February 2005	15,310,000	–
Number of share options outstanding at 31 March 2005	15,310,000	–

All the above options are exercisable for a period commencing from 1 August 2005 to 31 January 2007 at an exercise price of HK\$0.41 per share. During the year, no share options were lapsed or cancelled.

29. RESERVES**(a) Group**

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

The amount of the goodwill remaining in consolidated reserves, arising from the acquisition of associates in prior years had been fully impaired in previous years.

The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares in October 1999 (the "Reorganisation") over the nominal value of the share capital of the Company issued in exchange thereafter.

The contributed surplus of the Group represents the difference between the reduction in the issued share capital of HK\$0.0995 for every issued share at a nominal value of HK\$0.10 each of the Company and amount to be set-off against the accumulated losses of the Company. Details please also refer to note 28(A)(a)(i).

The fixed assets revaluation reserve represents the revalued amount of certain moulds and equipment of the Group as at 31 March 2004 less the original costs and subsequent impairment losses of these moulds and equipment. Details of the revaluation is set out in note 12(a). The fixed assets revaluation reserve is non-distributable.

29. RESERVES (Continued)

(b) Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2003	–	–	95,029	963	95,992
Capital restructuring (note 28(A)(a))	–	70,725	–	234,000	304,725
Conversion of convertible bonds (note 28(A)(b))	12,900	–	–	–	12,900
Placing of existing shares (note 28(A)(c))	20,863	–	–	–	20,863
Shares issued for settlement of creditors (note 28(A)(d))	3,471	–	–	–	3,471
Share issue expenses	(649)	–	–	–	(649)
Loss for the year	–	–	–	(419,732)	(419,732)
At 31 March 2004	36,585	70,725	95,029	(184,769)	17,570
Conversion of convertible note (note 26)	9,415	–	–	–	9,415
Issue of shares on open offer (note 28(A)(e))	27,743	–	–	–	27,743
Placing and subscription of shares (note 28(A)(f))	14,700	–	–	–	14,700
Share issue expenses	(1,681)	–	–	–	(1,681)
Loss for the year	–	–	–	(35,538)	(35,538)
At 31 March 2005	86,762	70,725	95,029	(220,307)	32,209

The capital reserve of the Company of HK\$95,029,000 as at 31 March 2005 represented the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus represented reduction in issued share capital pursuant to a capital restructuring on 25 July 2003. Under the Companies Law of Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Acquisition of a subsidiary in the PRC

	Group	
	2005 HK\$'000	2004 HK\$'000
Net assets acquired:		
Fixed assets	28,879	43,645
Inventories	17	2,744
Trade receivables	4,604	–
Prepayments, deposits and other receivables	10,379	3,441
Bank and cash balances	13	3,520
Accrued liabilities and other payables	(10,365)	(2,544)
Due to minority shareholders	(14,774)	–
Other loans	–	(13,349)
Bank loans	–	(10,566)
Taxation	(1,132)	–
Trade payables	(706)	(1,785)
	16,915	25,106
Goodwill on acquisition	–	(103)
	16,915	25,003
Satisfied by:		
Deposit for acquisition of a subsidiary (<i>note 15</i>)	14,960	–
Cash	–	3,012
Injection by minority shareholders	1,955	11,511
Promissory notes (<i>note 25</i>)	–	10,480
	16,915	25,003

During the year, the Group acquired 55% equity interest in 新樂升美 at a consideration of HK\$14,960,000. The effective date of the acquisition was 29 July 2004, being the date of transformation into a sino-foreign enterprise. The subsidiary acquired during the year contributed to the Group's net assets of HK\$16,072,000 at 31 March 2005 and profit from operations after taxation of HK\$1,112,000 for the year then ended.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (Continued)

- (b) An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary in the PRC is as follows:

	2005	Group
	HK\$'000	2004 HK\$'000
Cash consideration	–	(3,012)
Bank and cash balances acquired	13	3,520
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	13	508

- (c) Major non-cash transaction

During the year, a minority shareholder had injected capital totalling HK\$1,698,000 to the Group by way of repayment of other loan of the same amount on behalf of the Group.

31. LEASE COMMITMENTS

The Group had the following outstanding lease commitments under non-cancellable operating leases in respect of land and buildings payable as follows:

	2005	Group
	HK\$'000	2004 HK\$'000
Within one year	664	309
In the second to fifth years inclusive	38	98
	702	407

32. CAPITAL COMMITMENTS

At 31 March 2005, the Group committed to make capital injections to equity ventures operating in the PRC and engaged in city water supply business in the PRC of approximately HK\$15,842,000 (2004: HK\$6,876,000).

33. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

- (a) During the year, Mr. Duan Chuan Liang, a director of the Company, advanced approximately HK\$4,751,000 to the Group (2004: HK\$1,811,000 to the Company and the Group). The advance included in the financial statements is interest free, unsecured and is repayable on demand.
- (b) As at 31 March 2004, Mr. Duan Chuan Liang, a director of the Company, had given a personal guarantee as security for a loan at approximately HK\$3,003,000 (note 23). At 31 March 2005, the personal guarantee had released.
- (c) As at 31 March 2004, a related company which beneficially owned by Mr. Duan Chuan Liang, a director of the Company, had advanced approximately HK\$472,000 to the Group. The advance was interest free, unsecured and was repayable on demand. The advance was fully repaid as at 31 March 2005.

34. POST BALANCE SHEET DATE EVENTS

- (a) On 4 April 2005, a substantial shareholder of the Company entered into a placing agreement with an independent placing agent for the placement of 57,600,000 ordinary shares of the Company owned by the substantial shareholder at a price of HK\$0.50 per share. Pursuant to a subscription agreement on the same date, the substantial shareholder has agreed to subscribe for 57,600,000 new ordinary shares of the Company at a price of HK\$0.50 per share. The placement of shares raised total consideration, before expenses of approximately HK\$28,800,000.
- (b) On 7 April 2005, Limbrick Investment Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for disposal of 25.7% equity interest in ETMI Group for cash consideration of HK\$1,200,000. The estimated loss on disposal of the associates is approximately HK\$5,650,000 and has been recognised as impairment in current year.
- (c) On 11 April 2005, the Company entered into an investment agreement with Nanchang Municipal Public Investment Holding Group Company Limited (南昌市政公用投資控股有限責任公司), Beijing Lan Tian Bi Shui Investment Company Limited (北京藍天碧水投資有限公司), Shenzhen Lan Tian Bi Shui Enterprise Development Company Limited (深圳藍天碧水實業發展有限公司) and the senior management of Jiangxi Lan Tian Bi Shui Environmental Engineering Company Limited (江西藍天碧水環保工程有限責任公司) ("Jiangxi Lan Tian Bi Shui"). Pursuant to the investment agreement, the Company agreed to contribute RMB 20,700,000 to Jiangxi Lan Tian Bi Shui and is interested in 52.8% of its equity interest. Jiangxi Lan Tian Bi Shui will engage in the business of water supply, water sewage and waste management related business with operation based in Nanchang, Jiangxi, the PRC.

34. POST BALANCE SHEET DATE EVENTS (Continued)

- (d) On 21 April 2005, the Company entered into a joint venture agreement with Jiangxi Water Resources and Hydropower Development Company (江西省水利水電開發總公司) for the establishment of Jiangxi Water Affairs Company Limited (江西省水務有限責任公司) ("Jiangxi Water Affairs"). Pursuant to the joint venture agreement, the Company agreed to contribute RMB29,250,000 to Jiangxi Water Affairs and interested in 65% of its equity interest. Jiangxi Water Affairs will undertake water supply, water sewage treatment and development of hydroelectric power in the Jiangxi Province, the PRC.
- (e) On 21 June 2005, China Silver Dragon Group Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for disposal of 55% equity interest in 天津世昇 together with 55% of the shareholder's loan for a cash consideration of RMB3,300,000 (equivalent to HK\$3,113,000). A deposit of HK\$930,000 has been received as at the date of this report. The remaining balance will be settled within 60 days from the date of the agreement.
- (f) On 28 June 2005, the Company entered into a preliminary co-operation agreement with Xinyu Shi Construction Bureau (新余市建設局). Pursuant to the preliminary co-operation agreement, subject to the entering into of a joint venture agreement, the Company and Xinyu Shi Construction Bureau will form a joint venture to undertake water supply and water sewage treatment in Xinyu City, the Jiangxi Province, the PRC. It is currently expected that the total capital to be contributed by the Company and its subsidiaries will not exceed RMB60,000,000. The joint venture will be owned 60% by the Company and/or its subsidiaries.
- (g) On 15 July 2005, China Environmental Water Holdings Limited ("China Environmental"), a subsidiary of the Company, entered into an investment agreement with China National Administration Center for Sea Buckthorn Development (水利部沙棘開發管理中心), Beijing Jiang Huo Sea Buckthorn Company (北京江河沙棘公司) and Beijing You Bang Tian Cheng Technology Limited (北京友邦天成科技有限公司), pursuant to which the Group agreed to inject RMB20,000,000 into Conseco Seabuckthorn Co., Ltd. (高原聖果沙棘製品有限公司) ("Conseco Seabuckthorn"). Conseco Seabuckthorn is principally engaged in the production and sale of sea buckthorn and related products. Pursuant to the investment agreement, China Environmental will be interested in 50% of Conseco Seabuckthorn.