



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855



Annual Report **2007/08**



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2 Corporate Information

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Mr. Li Ji Sheng

Non-executive

Mr. Zhao Hai Hu
Mr. Chen Guo Ru
Mr. Zhou Wen Zhi
Mr. Wu Jiesi

Independent Non-executive

Ms. Huang Shao Yun
Ms. Liu Dong
Mr. Chau Kam Wing
Mr. Ong King Keung

AUDIT COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)
Ms. Huang Shao Yun
Ms. Liu Dong
Mr. Ong King Keung

REMUNERATION COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)
Ms. Huang Shao Yun
Ms. Liu Dong
Mr. Ong King Keung

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tam Chun Yip

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang
Mr. Tam Chun Yip

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITORS

Grant Thornton

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited

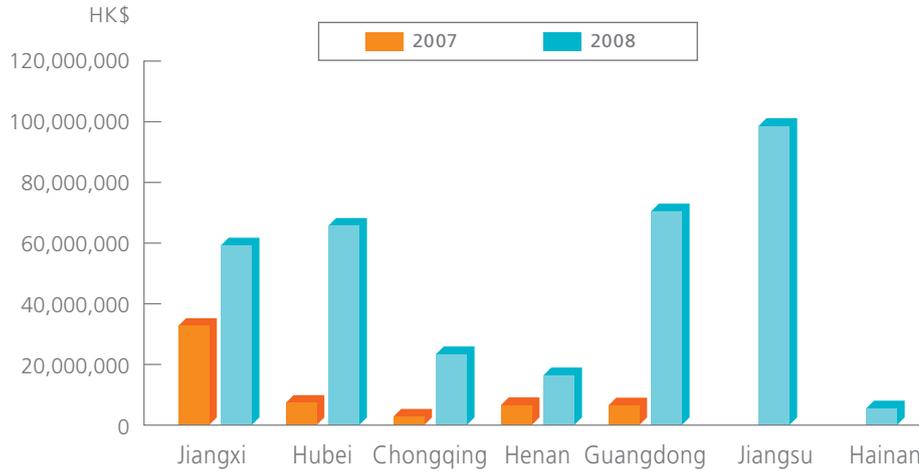
WEBSITE

<http://www.chinawatergroup.com>

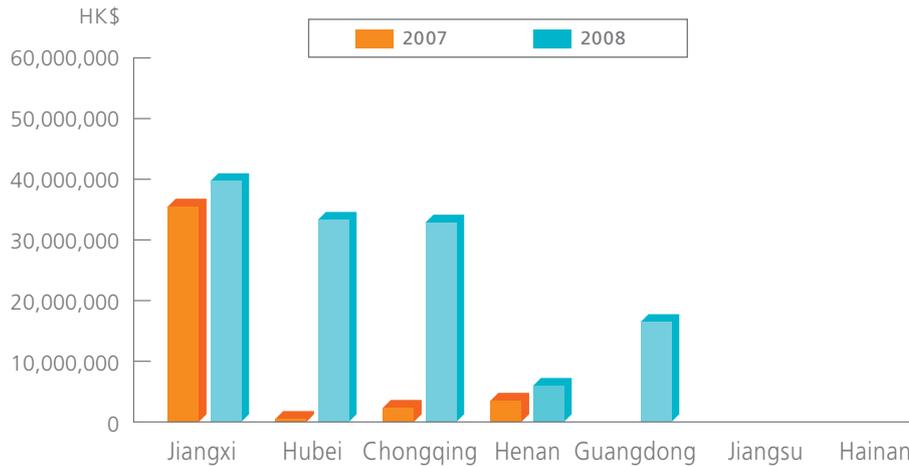
STOCK CODE

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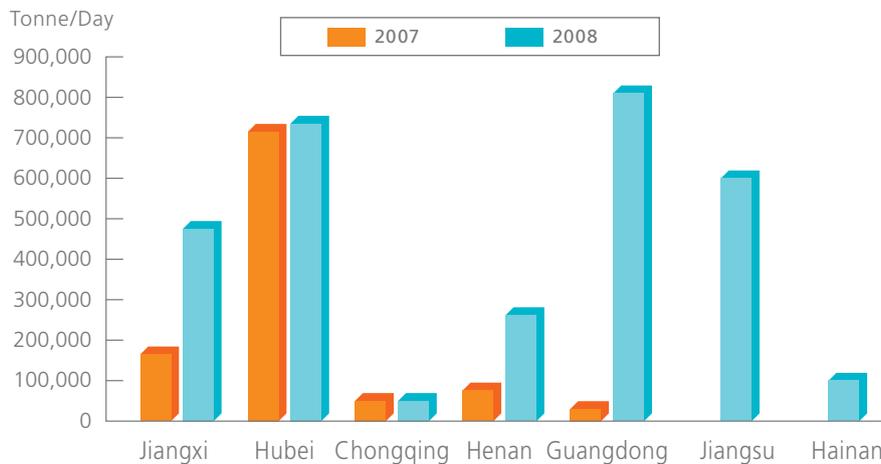
Water Supply Revenue



Water Related Installation Revenue



Water Supply's Daily Capacity



4 Business Coverage in China

China Water Affairs Group Limited

Jiangxi Province	100% ① Jiangxi Wannian Silver Dragon Water Affairs Co., Ltd	Wannian, Jiangxi
	60% ② Xinyu Water Affairs Group Co., Ltd	Xinyu, Jiangxi
Jiangxi Province	100% ③ Yanshan Silver Dragon Water Affairs Co., Ltd	Qianshan, Jiangxi
	60% ④ Fenyi Silver Dragon Water Affairs Co., Ltd	Fenyi, Jiangxi
	60% ⑤ Gaoan Water Affairs Co., Ltd	Gaoan, Jiangxi
	60% ⑥ Fenyi China Water Environmental Protection Co., Ltd	Fenyi, Jiangxi
	51% ⑦ Jingzhou Water Supply Co., Ltd	Jingzhou, Hubei
Hubei Province	100% ⑧ Jiangling Silver Dragon Water Affairs Co., Ltd	Jiangling, Hubei
	100% ⑨ Jingzhou China Water Environmental Protection Co., Ltd	Jingzhou, Hubei
Chongqing Municipality	100% ⑩ Chongqing Yong Chuan Global Credit Water Co., Ltd	Yongchuan, Chongqing
Henan Province	100% ⑪ Henan Yinlong (Fugou) Water Supply Co., Ltd	Fugou, Henan
	55% ⑫ Henan Yinlong (Xihua) Water Supply Co., Ltd	Xihua, Henan
	70% ⑬ Zhoukou Silver Dragon Water Affairs Co., Ltd	Zhoukou, Henan
	100% ⑭ Henan Luyi Silver Dragon Water Supply Co., Ltd	Luyi, Henan
Guangdong Province	73% ⑮ Guangdong Renhua Silver Dragon Water Supply Co., Ltd	Renhua, Guangzhou
	49% ⑯ Huizhou Daya Bay Yiyuan Purified Water Co., Ltd	Daya Bay, Huizhou, Guangzhou
	50% ⑰ Guangdong Xinhui Water Affairs Co., Ltd	Xinhui, Guangzhou
Guangdong Province	49% ⑱ Huizhou Daya Bay Qingyuan Environmental Protection Co., Ltd	Daya Bay, Huizhou, Guangzhou
Jiangsu Province	39.6% ⑲ Foundation Gang-Wu (Changzhou) Water Supply Co., Ltd	Wujin, Jiangsu
Hainan Province	56.31% ⑳ Hainan Xing Cheng Xiang Water Supply Co., Ltd	Haikou, Hainan

■ City Water Supply Projects
 ■ City Sewage Treatment Projects



● 2007 ● 2008 ● 2009

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I'm pleased to present to you the Group's results for the financial year ended 31 March 2008. For continuing operations, the Group recorded a turnover of HK\$765.5 million, representing an increase of 468% from HK\$134.7 million recorded last year. The Group recorded a gross profit of HK\$267.0 million representing an increase of 375% from HK\$56.2 million last year. For the year under review, the Group recorded a profit after income tax of HK\$310.5 million (2007: HK\$129.8 million). The total basic earning per share increased by 429% to 34.62 cents.

During the year, the Group upholds its business vision of "Water-oriented, Kindness to Society" while striving for its goal of becoming the best operator of raw water, tap water, sewage treatment and related services in the PRC and achieving satisfactory results.

During the year, the Group sustained continuous growth in its water supply business, serving more than 5 million people in over 10 cities and counties in various provinces. Other projects relating to water resources had also achieved desirable progresses, among which the stable increase in income from water and electricity projects had made, for the year, and will make major contribution to the Group's profit. As part of its effort on focusing on its core businesses, the Group disposed its shares in sea buckthorn business, Qian Jiang Water Resources and Prime Investment at a premium so as to re-channel its funds to development of its core businesses. The formation of strategic alliances with PRC partners has built a platform for in-depth integration of the Group's future resources.

During the year, the Group continued to enhance its management standards through measures such as standardization of its management philosophy and approaches so as to lay a solid foundation for its future development.

Looking into the future, China's continuous growth in GDP and improving living standard, coupled with the enhancement in industrial productivity and progress of urbanization will result in various outcomes, such that industrial and domestic water consumption as well as sewage treatment volume of the enterprises under the Group will sustain considerable growth; water value-added services and hydro-electric power generation will make a remarkable contribution to the corporate profits; more opportunities for growth will be posed by sewage treatment business; and acquisition and merger will continue to be the major factors determining the pace of growth of the Group.

On behalf of the Directors, I hereby express my gratitude to all shareholders, investors, customers and business partners for their strong support to the Group. I would also like to thank the directors and the staff members of the Group for their endeavor and active contribution. Innovation creates the future and hard work the splendor. We are confident of achieving successive good results in various aspects such as quality water supply, better utilization of water resources and promotion of water pollution prevention and cure with an aim to reward our shareholders and contribute to the society.

INDUSTRY OVERVIEW

The Critical Period of Rapid Development

The rapid and continuous economic development in China and the acceleration of its urbanization have made water shortage, both in terms of water resources and water quality, as well as water pollution pressing issues. In light of the situation, the PRC Government has introduced a series of on-going and orderly reform measures and policies to marketize the water industry, including reform of state ownership of water supply enterprises, integration of urban and rural water supply, tax incentives to encourage investments in water and environmental protection industries. The "Eleventh Five-Year-Plan" puts forward the goal of building an "environmental friendly society" and a "resources saving society" by way of enhancing urban sewage treatment rate and strengthening industrial sewage treatment. As a result of which, the water market is in its critical period of rapid development.

Trend in Water Price and its Expectation

Given the grim inflation in mainland China and the reform in water price mechanism lagging behind resulted from the government's effort to curb inflation, the increase in water price brought about by marketization of water price will be an irresistible general trend in the long term. The reasonable rise in tap water price and sewage treatment charge, together with the implementation of stairway-style water pricing and the price increment mechanism for over consumption of water above quota is conducive to water conservation.

The urban water charges as a proportion to the per capita disposable income in China is still rather low. With the sustained economic development of China, the per capita disposable income of the urban population is improving continuously. From the perspective of affordability of the urban population, it is acceptable to have the domestic water consumption expenses accounted for 2 to 3 % of the average household income of the urban population in China. If the calculation is based on the assumption that future water consumption expenses may be raised to account for 2 to 3 % of the average household income, there is still much room for further water price increase in most cities.

Increasingly Competitive Environment

The urban water industry in China, given its rapid development, has entered a phase of vigorous transformation such that the competition becomes more and fiercer with each passing day. However, the room for growth in the scale and the profit of this industry remains vast. The operating costs of water projects can be lowered by application of new technology and techniques, optimization of equipment operation, enhancement of management standards and proper allocation of human resources, which in turn will bring about greater return on investment to professional investment operators.

BUSINESS REVIEW

(I) Corporate Missions

"Water-oriented, Kindness to Society"

(II) Enhancement Achieved During Development

The Group continued to implement its strategy for development through several acquisitions and mergers. As a result of which, the Group holds water-related projects in various provinces and cities of China, and lay a solid foundation for the Group's position in China's water industry. The overall corporate results subsequent to the above acquisitions and mergers are proved satisfactory in the way that the operational efficiency of all the water-related projects are enhanced in full, which in turn greatly reinforces the Group's competitive advantages.

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Staff Development

The Group actively organizes for its staff pre-job trainings, regular on-the-job trainings and specific technical trainings, including trainings for the frontline staff working as pump operators, water supply attendants, water supply sale persons, and pipe workers, as well as comprehensive training for the financial and senior management personnel to enhance their professionalism. The trainings cover various areas such as professional ethics, corporate culture, civil engineering, computer technology, finance, insurance, and



quality management system internal examiner qualification. Along with the in-service training, the Group also makes efforts to attract various kinds of professionals, including fresh graduates and master degree holders, so as to actively raise outstanding business talents from a diversified talent pool and build up leadership echelons.



Skill Enhancement and Cost Control

The Group persists on optimizing the procedures of meter recording and payment management by way of phased introduction of water rate prepayment and deduction system, meter reading recorder and advanced card payment software system, with an aim to fully upgrade the payment, reporting and installation systems. The introduction of new technology and equipment, together with the optimized operational management of water pumps, frequency converters and pressure regulators, has put the costs of producing tap water under control through effective reduction of electricity consumption.



The Group has standardized its purchase of pipes and related large construction materials through public tender to enhance its bargaining power, which leads to quality assurance and purchasing cost control. The reinforced patrol and leakage detection work done by the professional leakage detection team on water supply pipe network and its related facilities, together with an informant and reward system set up in this regard, has helped reduce the rate of leakage and damage. As for its various projects, including water supply plants, sewage treatment plant, pipe laying and meter installation, the Group enforces close supervision in various stages, starting from the assessment of construction drawings to completion of work, in order to optimize the structure of pipe network and enhance its distribution capacity, to subdivide the pipe network engineering techniques and quality management.

Service Standards

The Group is committed to perfecting its water supply services through streamlined procedures by way of realizing and refining **"one-stop services"**, including business consultancy, bill payment, leakage reporting and repairing as well as water consumption reporting and installation. The Group establishes a comprehensive water supply service hotline and also releases information through various channels such as government websites and the press to make the procedures and the Group's social commitment more readily available to users. To strengthen its social commitment, the Group has implemented time limits for meter recording, reporting, repairing and complaint handling, together with ensuring the smooth operation of its 24-hr service hotline, to showcase its **"customer-oriented"** characteristics. "The Prettiest Lady" of Xinyu Water Affairs Group had won the Best Service Award.



In addition, the Group has also commenced operations on water meter design, production and sales. Through the related linkage to the water industry, the Group will not only control water meter quality and cost but also bring its unique industry advantages of water supply business into full play.



Water Quality Supervision and Production Safety

The Group also acknowledges that the creation of a clean and safe water environment by enterprises engaged in producing and supplying much needed drinking water has a direct impact on the quality of lives of the mass in the sense that it is an important part of building an all-out comparatively well-off society. The Group adheres to supplying water with quality and safety by means of better monitoring and testing of water quality and protection of water sources. As for the emergency crisis risk, such as the outbreak of blue algae in Tai Lake this year, the Group has drawn up the "Emergency Water Pollution Treatment Draft Plan" to strengthen the monitoring technology of the inspection center and its capability of emergency prevention and handling by way of introducing advanced and appropriate instruments and enlarging its professional inspection team. In addition, emergency drills are held to reinforce safety awareness and verify how well the accident and emergency rescue efforts are coordinated. Through the drills, the ability of self and mutual rescue of the frontline staff in case of accidents is substantially enhanced.



The Group has put safety production accountability into operation, adhering to the principle of **"Safety First, Prevention Foremost"**, whereby the employees are required to study the "Safe Production Approaches" formulated by the



Group so as to enhance their safety awareness and deepen their full knowledge and understanding of the operational rules. Safe production is also included in performance appraisals so that each post is made accountable for safety. The above efforts are implemented by posting of signs of safety warnings and carrying out regular and specific checking, repairing and maintenance of equipments. The Group also implements accountability, with the aim to be fair and strict in meeting out rewards and punishments, and to carry through the corporate mission of the Group of **"Supplying Water with Safety and Quality, Serving the Society Sincerely"**.

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Corporate Culture and Brand Name Building

With its corporate vision of **"Water-oriented, Kindness to Society"**, the Group has established the China Water Care Fund, formulated the "China Water Care Fund Management Approaches", and will organize donation drives for the Care Fund at appropriate times. Besides, the subsidiaries of the Group are still in support of the fundraising to rebuild the disaster areas hit by **"Sichuan Wenchuan Earthquake"**. On the other hand, the Group mobilized its employees to participate in the establishment and cultivation of its corporate culture through various means. At the same time of enforcing standardization of work, the Group also organizes job-related seminars for its middle and top management staff, and various cultural and recreational activities. In recognition of its efforts, the Group has been successively awarded such honorable titles as **"Model Enterprise With Harmonious Labor Relations"** at the state and municipal levels, **"Model Enterprise of Female Civilization"** at the provincial level and **"Model Enterprise of Youth Civilization"** at the municipal level, all served to strengthen the sense of belongingness and identification of its employees as excellent corporate culture promotes individual and team initiatives, higher efficiency as well as better and healthier corporate image.



(III) Water Supply Business Analysis

In the year, the Group sustained rapid growth in its revenue and profit from water supply business.



The revenue from city water supply amounted to approximately HK\$240.3 million (2007: HK\$55.8 million), representing 331% as compared with last year. The revenue from water supply related installation works amounted to approximately HK\$128.7 million (2007: HK\$41.7 million), representing 208% as compared with last year.

City water supply projects owned by the subsidiaries of the Group spread various provinces and municipalities across China, including provinces such as Henan, Jiangsu, Hubei, Jiangxi, Guangdong, Hainan and Chongqing. The total water segments profits (included city water supply, water related installation works and meter installation) amounted to approximately HK\$79.8 million (2007: HK\$26.1 million).



(IV) Sewage Business Analysis

The State Council issued the "Comprehensive Work Plan on Energy-saving and Emission Reduction" in 2007, following which the work of energy saving, emission reduction and pollution treatment is vigorously promoted countrywide. The centralized sewage treatment rate in every city will not be lower than 60% by 2010, of which sewage treatment rate in some major cities reaches 70%. From the central government to local governments, much importance has been attached to urban sewage treatment and the progress of its industrialization. With that in the backdrop, there is much room for investment in sewage treatment.



During the year, the Group has recorded turnover from sewage treatment business of HK\$26.8 million (2007: HK\$ Nil). The revenue contribution mainly from a sewage treatment plant located at Hongguang Road, Development Zone, Jingzhou City, Hubei Province. The sewage treatment plant is managed by a directly and wholly-owned subsidiary of the Company and operation is running under a franchise granted by The Construction Committee of Jingzhou City, Hubei Province for a term of 25 years on a transfer-operate-transfer ("TOT") basis. The total consideration for the acquisition of the franchise is RMB130 million in cash. For the year ended 31 March 2008, the profit after tax and the profit after tax but before amortization of cost of franchise of that sewage treatment business is amounted to approximately HK\$11.2 million and HK\$16.8 million, respectively.

On 28 March 2008, 惠州中水水務發展有限公司 (Huizhou China Water Affairs Development Company Limited), a 70%-owned subsidiary of the Company, and 惠州市投資管理有限公司 (Huizhou Investment Management Company) ("Huizhou Investment") entered into an agreement, pursuant to which the Company conditionally agreed to acquire 70% of the registered capital of each of Huizhou Daya Bay Running Water General Company ("Huizhou Daya Bay Running Water"), Huizhou Daya Bay Qingyuan Environmental Protection Co., Limited ("Huizhou Daya Bay Qingyuan") and Huizhou Daya Bay Yiyuan Purified Water Co., Limited ("Huizhou Daya Bay Yiyuan") from Huizhou Investment.

Huizhou Daya Bay Qingyuan is principally engaged in the provision of sewage treatment service for both domestic and industrial uses in Huizhou City, Guangdong Province, the PRC. Huizhou Daya Bay Qingyuan is equipped with newly built and technologically advanced sewage treatment facilities. Huizhou Daya Bay Qingyuan started test-running in September 2006 and commenced operation in July 2007, with sewage treatment capacity reaches 80,000 m³ per day. The Board expects that after completion of the acquisition, results of Huizhou Daya Bay Qingyuan in its first full year of operation in 2008 shall be improved through expansion in customer base and improvement in operation efficiency.

On 9 May 2008, the Company entered into a preliminary agreement with 江西省資產集團公司 (Jiangxi Province Administrative Assets Group Company) pursuant to which Jiangxi Province Administrative Assets Group Company granted to the Company the first refusal right regarding the proposed acquisition of the right to operate the sewage treatment plants upon completion of their construction by Jiangxi Province Administrative Assets Group Company. Jiangxi Province Administrative Assets Group Company is an entity wholly owned by the Provincial Finance Bureau of Jiangxi Province, the PRC. The Jiangxi Provincial Government has proposed to construct 80 sewage treatment Plants as part of its projects to protect and enhance the environment and main water resources of Jiangxi Province. It is expected that the construction of the sewage treatment plants will be completed by the end of September 2010. The first phase will consist of 45 sewage treatment plants and will be completed and operated by the end of September 2009. It is estimated that the sewage treatment plants shall have an aggregate daily processing capacity of approximately 1.9 million tones. The estimated total investments for the construction of the sewage treatment plants, piping networks and related facilities is approximately RMB6,000 million, of which the investments relating to the construction of the sewage treatment plants is approximately RMB3,000 million. Subject to further negotiations with Jiangxi Province Administrative Assets Group Company, the Company has agreed to provide human resources and technology support to Jiangxi Province Administrative Assets Group Company on the construction of the sewage treatment plants. It is also the intention of the Company to further negotiate with the Jiangxi Provincial Government regarding the Company's participation

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in the design and construction of the sewage treatment plants. In consideration of the granting of the first refusal right, the Company shall pay to Jiangxi Province Administrative Assets Group Company a refundable security deposit of RMB50 million (equivalent to approximately HK\$56 million) by the end of 2008. The security deposit is refundable to the Company in the event that the Company decides not to proceed with the proposed acquisition.

Moreover, the Group has also has new sewage treatment projects which located within Jiangxi Province, the PRC which expect contribute to the results of sewage treatment business of the Group for next year.

(V) Investment Business Analysis

As at the balance sheet date, the Group's investment portfolio held for trading mainly consists of Qian Jiang Water Resources Development Co., Ltd ("Qian Jiang") (Shanghai Stock Exchange Code: 600283) and Ming Hing Waterworks Holdings Limited (stock code: 402). The Group has disposed 14,266,500 A shares of Qian Jiang and 427,890,908 shares of Prime Investments Holdings Limited (stock code: 721), with gross sale proceeds of approximately HK\$257.9 million and HK\$72.7 million, respectively. The aggregate sale proceeds of approximately HK\$330.6 million has recovered more than the aggregate initial costs of investing in Qian Jiang, Ming Hing Waterworks Holdings Limited and Prime Investments Holdings Limited.

The Group is satisfied with the return on investment for the year, whereas the proceeds from disposal of shares have been retained for development of current water projects.

The Company noted that the global stock market has experienced a high volatility in past twelve months. The Group understands that the investment market will remain uncertain in the coming year, but it holds on to its cautioned optimism and will carry out review of its current investment portfolio at appropriate times on a regular basis or in response to changes in the investment environment. The Group has no intention to enlarge the scale of its current investment portfolio.

(VI) Disposal of Sea Buckthorn Business

On 29 June 2007, the Group entered into an agreement to sell the entire issued share capital of China Environmental Water Holdings Limited ("China Environmental") at a consideration of HK\$200,000,000. The consideration is satisfied by (i) HK\$19,950,000 by issuance of 133,000,000 new shares of China Botanic Development Holdings Ltd. ("CBDH") (formerly known as "Wah Yuen Holdings Limited") to the Group credited as fully paid, at the issue price of HK\$0.15 per share; (ii) HK\$180,050,000 by issuance of convertible bonds from CBDH to the Group, and (iii) waiver of amounts due from China Environmental and its subsidiaries by the Group of HK\$19,258,000. The convertible bonds can be converted into new shares of CBDH at conversion price of HK\$0.15 each with maturity date at the tenth anniversary of the date of issue of the convertible bonds. China Environmental holds 50% equity interest in Conseco Seabuckthorn Co., Ltd., which is principally engaged in the cultivation and sale of sea buckthorn seedling as well as manufacturing and selling of its related products.

The Group has recorded a gain of HK\$353.2 million, upon disposal of China Environmental and its sea buckthorn related business to CBDH. The disposal enables the Group to focus financial and human resources on developing city water supply and its related businesses of the Group. Although the Group ceased its operation in sea buckthorn related business but the Group still able to capture the potential growth of sea buckthorn related business as the Group currently held the convertible bonds issued by CBDH.

(VII) Development of Investment in Water and Electricity

At the balance sheet date, the Group has equity interest of 45% in Jianghe Long Chuan Electricity Development Company ("Jianghe Long Chuan"). The principal projects held by Jianghe Long Chuan include a 51% interest in the hydro-electric power plant at 福建寧德大港水電站 (Fujian Ningde Dagong Electric Station), a 40% interest in the hydro-electric power plant at 雲南馬關大樑子水電站 (Yunnan Maguan Daliangzi Hydro-electric Power Station), a 65% interest in 雲南龍陵臘寨水電站 (Yunnan LongLing Lazhai Hydro-electric Power Station), and a 36% interest in 雲南文山電網 (Wenshan WenShan Hydro-electric Power Station). In addition to the above, Jianghe Long Chuan also has minority investments in four other power plant projects, with three in Yunnan and another one in Inner Mongolia.

Jianghe Long Chuan is specialized in the development of and investment in hydro-electric power generation business, with installed capacity of approximately 350,000 kilowatt. The Group consider that the investment in Jianghe Long Chuan enable the Group to make a foray into the environmental friendly power generation industry and water resources exploitation and development business and in line the strategy of the Group to develop clean energy with reduced emission of carbon dioxide.

Given the high speed development of the economy of the PRC, and the increasing social awareness in the use of environmental friendly power, the Directors believe the business potential of Jianghe Long Chuan is immense. The audited consolidated profit after tax and minority interests of Jianghe Long Chuan prepared in accordance with the Generally Accepted Accounting Policies and Accounting Standards in the PRC for the years ended 31 December 2006 and 2007 are approximately RMB7.3 million, RMB26.7 million.

Jianghe Long Chuan has profitable track record of for the financial years ended 31 December 2006 and 2007 and has declared dividend to the Group of approximately RMB3.8 million for the year ended 31 December 2007. The Group expect that there will be positive effect on the earnings of the Group in the coming future.

(VIII) Strategic Investment for Win-win Situation

During the year, the Company has strengthened the co-operation with leading players of water industry in the PRC.

中國水務投資有限公司 (China Water Industry Investment Corporation) ("CWIIIC")

On 26 October 2007, the Company entered into an agreement to acquire 19.375% in the registered capital of 中國水務投資有限公司 (China Water Industry Investment Corporation) ("CWIIIC"). The core shareholders of CWIIIC include Bureau of Comprehensive Development, Ministry of Water Resources, the PRC, Sinohydro Corporation and Shanxi Wanjiashai Yellow River Diversion Project General Company.

As at the balance sheet date, CWIIIC owned 山東水務投資有限公司 (Shandong Water Investment Company Limited), 上海自來水建設公司 (Shanghai Water Supply Construction Company) and 錢江水利開發股份有限公司 (Qian Jiang Water Resources Development Co., Ltd.) with equity interest of 51.00%, 42.86% and 25.55%, respectively.

On the other hand, the Group owned 山東水務投資有限公司 (Shandong Water Investment Company Limited), 上海自來水建設公司 (Shanghai Water Supply Construction Company) and 錢江水利開發股份有限公司 (Qian Jiang Water Resources Development Co., Ltd.) with equity interest of 8.00%, 28.57% and 6.34%, respectively.

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中國水利投資集團公司 (China Waterworks Investments Group Corporation) ("CWIC")

CWIC is an only water related large investment corporation under the State-owned Assets Supervision and Administration Commission of the State Council. Major areas for investment are as water conservancy and hydro power, municipal and township water supply, renewable energy, dredging and environment projects.

On 10 May 2007, the subsidiaries of the Company entered into an agreement with CWIC and the minority JV partners, pursuant to which the subsidiaries of the Company agreed to contribute new capital to Jianghe Long Chuan representing 45% in total of the enlarged registered capital of Jianghe Long Chuan. CWIC holds equity interest of 47% of Jianghe Long Chuan as of the balance sheet date.

The Group believe that strategic alliances with CWIC and CWIC is one of the major achievements made during the year, as both CWIC and CWIC are both leading players and are state-owned corporations under direct control of the central government. The alliances show that both CWIC and CWIC recognized and appreciate the Group's water expertise, the Group's sincere and enthusiasm in development of water industry in the PRC, Group's corporate cultures and missions, and solid foundation of Group's in water industry in the PRC.

FUTURE PROSPECTS

With the continuous economic development in China that promotes urbanization and the government's policy that advocates integration of urban and rural water supply, water supply is extended to wider areas and management standards are enhanced. All these factors provide remarkable room for growth of income from water supply and installation work under the current city water supply projects of the Group. In addition, the Group is also identifying with effort some promising water projects to enlarge its water supply business and enhance its effectiveness.

On top of its prior solid foundation of water supply, the Group endeavors to realize integration of water supply and emission, to expand its sewage treatment business and to optimize the structural linkage between water supply industry and related water industry so as to fully enhance its overall effectiveness, service quality and competitiveness.

MAJOR ACQUISITIONS AND DISPOSALS

Details of the Group's acquisitions and disposals during the years ended 31 March 2007 and 2008 are set out in note 42 and note 10 to the financial statements respectively.

CAPITAL RAISING

On 16 July 2007, the Company entered into an subscription agreement with DBS Bank Limited pursuant to which DBS Bank Limited agreed to subscribe for the convertible bonds in an aggregate principal amount of HK\$650 million. The net proceeds from the issue of the Convertible Bonds of approximately HK\$636.3 million (the net issue price being HK\$6.85 per conversion share, assuming full exercise of the convertible bonds at the conversion price of HK\$7.00 per share after deduction of all related expenses) will be used wholly for investment, by way of capital expenditure and working capital, in water supply and/or water related projects in the PRC. The convertible bonds in the aggregate principal amount of HK\$650 million were issued to DBS Bank Limited on 3 August 2007. Approximately HK\$576.3 million was used for investing in water projects and the remaining balance of approximately HK\$60 million being placed as bank deposit.

On 18 December 2007, the Company entered into an loan agreement with Deutsche Investitions- und Entwicklungsgesellschaft mbH ("DEG") and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO") ("the Lenders") for a term loan facility of up to US\$36 million for the purpose of financing the Group's water projects in the PRC. The loan facility was expired on 15 June 2008 and the Group has not utilised the loan facility.

During the year ended 31 March 2008, the subscription rights attaching to 2,570,000, 400,000 and 300,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.41, 1.16 and 1.45 per share respectively, resulting in the issue of aggregate of 3,270,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$1,952,700 (before expenses).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2008, the Group has total cash and bank balances of approximately HK\$458.1 million (2007: HK\$520.3 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 49.7% (2007: 43.2%) as at 31 March 2008. The current ratio is 1.32 times (2007: 1.65 times) as at 31 March 2008. 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.

HUMAN RESOURCES

As at 31 March 2008, the Group has employed approximately 4,100 staff. Most of them stationed in the PRC and the remaining in Hong Kong. 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

The Group's exposure to currency exchange rate is minimal as majority of the subsidiaries of the Group operates in the PRC with most of the transaction denominated and settled in RMB. Accordingly, the Group does not use derivative financial instruments to hedge its foreign currency risk.

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PLEDGE OF ASSETS

- (i) The Group's bank loans and other loans at 31 March 2008 were secured by:
- (a) pledge of water revenue of certain subsidiaries;
 - (b) guarantees by You Tao and Lin Hua Dong (being senior management of certain subsidiaries), 江西省水利水電開發總公司, 新余市財政局 and 韻關市丹霞山旅遊投資經營有限公司;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2008 was HK\$106,602,000 (2007: HK\$82,540,000);
 - (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2008 was HK\$3,532,000 (2007: HK\$13,764,000);
 - (e) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2008 was HK\$138,267,000 (2007: HK\$130,000,000); and
 - (f) charges over the Group's bank balance in amount of HK\$35,333,000 as at 31 March 2008 (2007: Nil).
- (ii) On 18 December 2007, the Company entered into a term facility agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH (“DEG”) and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”) for a loan facility of up to US\$36 million (the “Loan Agreement”). In connection with the Loan Agreement, the Company shall issue to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company at the subscription price of HK\$7 during the subscription period from 18 December 2008 to 18 December 2011 (both days inclusive) up to USD10.8 million (the “Warrants”). The subscription monies for the Warrants shall be satisfied by way of set off of any outstanding amount under the Loan Agreement. The loan facility under the Loan Agreement is secured by (i) shares of certain subsidiaries of the Group; (ii) the Group's equity investment in CBDH; and (iii) a bank account of the Group.

CONTINGENT LIABILITIES

As at 31 March 2008, the Group did not have any material contingent liabilities (2007: Nil).

ACKNOWLEDGEMENTS

Lastly, on behalf of the Directors, I wish to express my gratitude to all shareholders, investors, and business partners for their continued trust and support. I would also like to thank the staff members of the Group for the valuable contribution they have made, with team spirit and dedication, to the Group's long-term development. I look forward to continuing working hand-in-hand with all of us for mutual advancement. With staff members at all levels of the Group going all out, we can certainly bring our potential into full play to achieve the Group's operation objectives and create shareholders' value.

Duan Chuan Liang

Chairman

Hong Kong, 29 July 2008

18 Directors' and Senior Management Biographical Details

DIRECTORS

Executive Directors

Mr. Duan Chuan Liang, aged 45, was graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree, major in irrigation and water conservancy works. Mr. Duan 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. Li Ji Sheng, aged 69, graduated from 北京水利發電學校. He was appointed as the director-general of Department of Personnel, Labor and Education of the Ministry of Water Resources of the PRC and the chairman and party secretary of China Water Investment Corporation. Mr. Li is the director and general manager of Foundation Water Affairs Investment Co. Ltd. (江河水務投資有限公司). He joined the Group in May 2007.

Non-executive Directors

Mr. Wu Jiesi, aged 56, holds a doctorate degree in Economics from the Nankai University of the People's Republic of China. He was the former chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited. From 1984 to 1995, Mr. Wu has also worked for the Industrial and Commercial Bank of China as president of its Shenzhen branch. He joined the Group in February 2006.

Mr. Chen Guo Ru, aged 62, graduated from South China Normal University in 1985. Mr. Chen was a deputy general manager of Guangdong Investment Limited and a managing director and chairman of Guangdong Yue Gang Water Supply Company Limited. Mr. Chen joined Dongshen Water Bureau in December 1988 and has acted as the Chairman of the Trade Union, Vice General Secretary and Vice President of Dongshen Water Bureau. He joined the Group in 30 November 2005.

Mr. Zhao Hai Hu, aged 53, was graduated from Zhejiang University with a master degree in Engineering. He is a general manager of an irrigation technology company which is engaged in the research and development of irrigation and hydroelectric technology. Mr. Zhao is primarily responsible for project management, research and development of irrigation, water supply. 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 27 years' experience in engineering. He joined the Group in July 2003.

Mr. Zhou Wen Zhi, aged 67, was graduated from Liaoning Agriculture University. He was the vice minister of Ministry of Water Resources of the PRC from 1991 until his retirement in June 2001. Mr. Zhou has over 11 years' experience in the development and construction of the PRC water resources. He joined the Group in October 2004.

Independent Non-executive Directors

Ms. Huang Shao Yun, aged 53, is the 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 35 years of accounting experience. She joined the Group in July 2003.

Ms. Liu Dong, aged 40, was appointed as independent non-executive director and a member of the audit committee and the remuneration committee of the Company with effect from 5 February 2007. Ms. Liu was graduated from the Capital University of Economics and Business. Ms. Liu is currently the vice manager of the finance head quarter of the China Galaxy Securities Co. Ltd.

Mr. Chau Kam Wing, aged 45, obtained a master degree in Business Administration from the University of San Francisco, USA and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of Hong Kong Institute of Certified Chartered Accountant. He has over 20 years experience in auditing, taxation, and financial management of various listed companies. He was an Executive Director and Chief Financial Officer of a listed company in the Main Board of the Hong Kong Stock Exchange and a Chief Financial Officer of a listed company in GEM of the Hong Kong Stock Exchange. He joined the Group in March 2007.

Mr. Ong King Keung, aged 32, is the chief financial officer of a company listed on the Main Board of the Hong Kong Stock Exchange. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He holds a bachelor's degree in Accountancy from The Hong Kong Polytechnic University and Master Degree in Corporate Finance from the City University of Hong Kong. He has ample of experiences in auditing, financial management and initial public offering. He was senior management of several listed companies including Hunan Nonferrous Metals Corporation Limited. He joined the Group in March 2007.

SENIOR MANAGEMENT

Mr. Du Lin Dong, aged 40, is the chief executive officer of the Company. Mr. Du is the former managing director of Beijing Huaxin Shiji Investment Company Limited and the former director of Xin Shadai Investment Company Limited. He joined the Group in November 2004.

Mr. Tam Chun Yip, aged 33, is the qualified accountant 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.

Mr. Liu Yong, aged 39, is the executive general manager and deputy executive general manager of the Group. Mr Liu graduated from the Southeast University in 1991, majoring in detection technology and instrument of the Department of Automatic Control. He studied water supply and drainage in the Southeast Jiao Tong University from 1993 to 1994 and was awarded the qualification of senior water supply and drainage engineer in 2004. He obtained the PRC Certified Asset Appraiser Qualification Certificate in 1997. Mr Liu has over 13 years of senior management experience in water project design, water construction project management and water plant operation in water industry in China.

Mr. He Yuan Ye, aged 43, is the deputy general manager of the Group. He majored in water supply and drainage engineering in Tongji University of Shanghai from 1983 to 1987 and took the MBA course in Heriot-Watt University of UK from 2000 to 2003. He served in the World Bank Poverty Alleviation Ad Hoc Committee from 1994 to 1999. Mr. He has years of senior management experience in water project design, water engineering construction project management and water plant operation in water industry in China.

Mr. Li Xing Ping, aged 39, is the deputy general manager of the Group and the general manager of Jingzhou Water Affairs Group Co., Ltd. He graduated from water supply and drainage specialty in the Department of Civil Engineering, Yellowstone Institute of Technology in 1991. He was awarded the bachelor degree in Engineering from Changjiang University and MBA from Huazhong University of Science and Technology in 2005. Mr Li has over 13 years of senior management experience in water project design, water engineering construction project management and water plant operation in water industry in China. He currently serves as deputy executive director of China Urban Water Association and director of Township Office.

20 Corporate Governance Report

The board of directors (the “Board”) is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders’ value. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

The Code on Corporate Governance Practice (“CGP Code”) issued by The Stock Exchange of Hong Kong Limited (“Stock Exchange”) in its Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) sets out two levels of corporate governance practices, i.e. mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CGP Code, save for the deviations discussed below.

The number of the Board Meetings, Audit Committee Meetings and Remuneration Committee Meetings attended by each Director during the year under review are set out in the following table. Figure in brackets indicates maximum of meetings in the period in which the individual was a Board Members or Audit Committee Members or Remuneration Committee Members (as the case may be).

	Notes	Meetings attended/(held)		
		Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>				
Mr. Duan Chuan Liang (<i>Chairman</i>)		24/(25)	N/A	N/A
Mr. Li Ji Sheng	1	7/(19)	N/A	N/A
Mr. Chen Guo Ru	2	5/(5)	N/A	N/A
<i>Non-executive Directors</i>				
Mr. Chen Guo Ru	2	13/(20)	N/A	N/A
Mr. Zhao Hai Hu		3/(25)	N/A	N/A
Mr. Zhou Wen Zhi		0/(25)	N/A	N/A
Mr. Wu Jiesi		1/(25)	N/A	N/A
<i>Independent Non-executive Directors</i>				
Ms. Huang Shao Yun		8/(25)	2/(2)	1/(1)
Ms. Liu Dong		7/(25)	1/(2)	0/(1)
Mr. Chau Kam Wing		5/(25)	2/(2)	1/(1)
Mr. Ong King Keung		5/(25)	2/(2)	1/(1)

Notes:

1. Appointed as Executive Director on 25 May 2007
2. Re-designated as Non-executive Director on 25 May 2007

Each of the Independent Non-executive Directors have confirmed in writing their independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

The Board is principally responsible for formulating business strategies, and monitoring the performance of the business of the Group. The Board decides on corporate strategies, approves overall business plans, evaluates the Group's financial performance and management and reviews the financial and internal control system. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. The Board members have no financial, business, family or other material/relevant relationships with each other. Given the composition of the Board and the skills, knowledge and expertise of the Director, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

During the year under review, appointment of new Directors was considered and approved by the full Board by taking into account criteria such as expertise, experience, integrity and commitments. Under Code Provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the Directors shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of Directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the Chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the Chairman of Board should not be subject to retirement by rotation.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of the Chairman and the Chief Executive Officer (the "CEO") of the Group were separately held by Mr. Duan Chuan Liang and Mr. Du Lin Dong respectively for the year to ensure a clear distinction between the Chairman's responsibility to lead the Board and the CEO's responsibility to manage the Company's business affairs. The Company intends to continue to have the role of the Chairman and CEO assumed by different individuals.

22 Corporate Governance Report

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 requires that Non-executive Directors should be appointed a specific term and subject to re-election. None of the existing Non-executive Directors of the Company except Mr. Wu Jiesi, Mr Chen Guo Ru, Mr Chau Kam Wing, Mr Ong King Keung, Ms. Liu Dong and Ms. Huang Shao Yun is appointed for a specific term. However, under the Company's bye-laws, all directors of the Company (whether Executive or Non-executive, except the Chairman) are subject to the retirement by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice are no less exacting than those in the Code.

AUDIT COMMITTEE

The Audit Committee currently comprises of four Independent Non-executive Directors, namely Mr. Chau Kam Wing (Chairman), Mr. Ong King Keung, Ms. Huang Shao Yun and Ms. Liu Dong, and is responsible for review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel, records, external auditors and senior management.

The Audit Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code Provision. For the year under review, the Audit Committee held two meetings included the review of the final results for the year ended 31 March 2007 and the interim accounts for the six months ended 30 September 2007 and the internal control system of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee, currently comprises of four Independent Non-executive Directors, namely Mr. Chau Kam Wing (Chairman), Mr. Ong King Keung, Ms. Huang Shao Yun and Ms. Liu Dong, is responsible for reviewing and determining the compensation and benefits of the Directors and senior management. The Remuneration Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code Provision. During the year under review, one meeting was held by the Remuneration Committee and it reviewed the remuneration packages of the Directors.

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. Furthermore, as the full Board is responsible for the selection and approval of candidate for appointment as Director to the Board, therefore the Company has not established a Nomination Committee for the time being.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Company and of the Group and the results and cash flow of the Group for the period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives. During the year under review, the Board reviewed the overall effectiveness of the Group's system of internal control over financial, operational and compliance controls and risk management functions. The Board concluded that in general, the Group's internal control system is effective and adequate.

AUDITORS' REMUNERATION

Total auditors' remuneration for the year ended 31 March 2008 amounted to HK\$5,350,000 (2007: HK\$2,930,000). HK\$200,000 (2007: HK\$1,060,000) was paid for other non-audit services provided by Grant Thornton for the Company and its subsidiaries during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communications with its shareholders and investors. As a means of communications, the Company provides information relating to the Company and its business in its interim and annual reports. The Company regards its Annual General Meeting as an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the Annual General Meeting to address shareholders' queries. The Company also responds to requests for information and queries from the shareholders and investors and welcomes the views of shareholders on matters concerning the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management direct.

24 **Directors' Report**

The Directors herein present their report and the audited financial statement of the Company and of the Group for the year ended 31 March 2008.

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 17 to the financial statements. Save as disclosed in the financial statements, there were no other significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2008 is set out in note 6 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 154 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 33 to 152. The Directors do not recommend the payment of any dividend in respect of the year.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively. Further details of the Group's investment properties is set out on page 153.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 39, 40 and 37 to the financial statements, respectively.

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

During the year ended 31 March 2008, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares repurchased	Highest price per share HK\$	Lowest price per share HK\$	Aggregate consideration (excluding expenses) HK\$
August 2007	1,254,000	4.22	4.03	5,285,260

The shares repurchased during the period were cancelled in August 2007 and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

Save as disclosed above, 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 41 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 41 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 42% of the total sales for the year and sales to the largest customer included therein amounted to approximately 36%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. 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.

26 Directors' Report

DIRECTORS

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

Executive Directors

Mr. Duan Chuan Liang (*Chairman*)

Mr. Li Ji Sheng (appointed on 25 May 2007)

Non-executive Directors

Mr. Chen Guo Ru (being Executive Director re-designated as
Non-executive Director on 25 May 2007)

Mr. Wu Jiesi

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi

Independent Non-executive Directors

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Chau Kam Wing

Mr. Ong King Keung

In accordance with clause 87 of the Company's Bye-laws, Mr. Chen Guo Ru, Mr. Wu Jiesi, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi will retire at the forthcoming annual general meeting and all of them 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 reelection in accordance with the provisions of the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

The Company entered into a service contract with Mr. Wu Jiesi, a Non-executive Director, for an initial term of three years (subject to the termination provisions of the service contracts, commencing from 13 February 2006). Mr. Wu is entitled to, among other things, an annual salary of HK\$60,000 and share options to subscribe for a total of 6,000,000 shares.

As at 31 March 2008, saved for Mr. Wu's service contract, 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 elsewhere in 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 SECURITIES

As at 31 March 2008, 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 (Note)	Corporate and personal	153,716,301	–	12.40%
Mr. Chen Guo Ru	Personal	6,290,000	–	0.51%
Mr. Zhao Hai Hu	Personal	1,900,000	–	0.15%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.07%

Note: These 153,716,301 shares consist of 112,336,301 shares held by Asset Full Resources Limited and 100,000 shares held by Tat Chi International Inc., both of which are companies wholly and beneficially owned by Mr. Duan Chuan Liang, and 41,280,000 shares held by Mr. Duan personally.

(b) Underlying shares

Name of Director	Capacity/ Nature of interest	Nature of shares		Approximately percentage of shareholding in the Company	
		Long position	Short position	Long position	Short position
Mr. Duan Chuan Liang	Personal	50,000,000	–	4.03%	0%
Mr. Li Ji Sheng	Personal	1,000,000	–	0.08%	0%
Mr. Chen Guo Ru	Personal	500,000	–	0.04%	0%
Mr. Wu Jiesi	Personal	6,000,000	–	0.48%	0%
		1,000,000	–	0.08%	0%
Mr. Zhao Hai Hu	Personal	800,000	–	0.06%	0%
Mr. Zhou Wen Zhi	Personal	500,000	–	0.04%	0%

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

- (c) Mr. Li Ji Sheng is interested in 0.54% of the equity interest of 江河水務有限公司 (Foundation Water Affairs Co. Ltd.), a non-wholly owned subsidiary of the Company.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 40 to the financial statements. Pursuant to the share option scheme adopted by the Company on 6 September 2002, certain Directors were granted share options. As at 31 March 2008, the interests of the Directors of the Company in options to subscribe for shares in the capital of the Company under the share option scheme were as follows:

Name of Director	Date of grant	Number of share issuable upon exercise of options held as at 31 March 2008	Price per share to be paid on exercise of options HK\$	Approximate percentage of shareholding %
Mr. Duan Chuan Liang	2 April 2007	50,000,000	3.60	4.03
Mr. Li Ji Sheng	10 August 2007	1,000,000	4.58	0.08
Mr. Chen Guo Ru	10 August 2007	500,000	4.58	0.04
Mr. Wu Jiesi	29 March 2006	6,000,000	1.45	0.48
	10 August 2007	1,000,000	4.58	0.08
Mr. Zhao Hai Hu	10 August 2007	800,000	4.58	0.06
Mr. Zhou Wen Zhi	10 August 2007	500,000	4.58	0.04

Other than as disclosed in the sections headed "Directors' and chief executives' interests in securities" and "Share Option Scheme" 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 SECURITIES

Other than those disclosed in the sections headed "Directors' and chief executives' interests in securities" and "Share Option Scheme" 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

At the balance sheet date, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Number of shares		Approximately percentage of shareholding in the Company	
		Long position	Short position	Long position	Short position
Asset Full Resources Limited	Beneficial	112,336,301	–	9.06%	0%
Atlantis Investment Management Limited	Beneficial	237,416,000	–	19.15%	0%
L-R Global Partners, L.P.	Beneficial	84,834,000	–	6.84%	0%
JP Morgan Chase & Co.	Beneficial	73,454,289	504,000	5.92%	0.04%
Deutsche Bank Aktiengesellschaft	Beneficial	68,466,383	5,440,000	5.52%	0.44%
UBS AG	Beneficial	67,142,143	18,441,000	5.42%	1.49%

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 Mr. Duan Chuan Liang, an Executive Director and Chairman of the Company.

Save as disclosed above, as at 31 March 2008, 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 of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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.

CONNECTED TRANSACTIONS

On 16 January 2008, China Water Investments Limited entered into an agreement with Asset Full Resources Limited to sell 427,890,908 shares of Prime Investments Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange, at the total consideration of HK\$72,741,454.36, which is based on HK\$0.170 per share of Prime Investments Holdings Limited. The ordinary resolution to approve the agreement relating to the disposal of the shares in Prime Investments Holdings Limited was duly passed by way of poll at the special general meeting held on 19 February 2008.

30 Directors' Report

On 28 March 2008, 惠州中水水務發展有限公司 (Huizhou China Water Affairs Development Company Limited), being a 70%-owned subsidiary of the Company, and 惠州市投資管理有限公司 (Huizhou Investment Management Company) ("Huizhou Investment") entered into an agreement, pursuant to which the Company conditionally agreed to acquire 70% of the registered capital of each of Huizhou Daya Bay Running Water General Company ("Huizhou Daya Bay Running Water"), Huizhou Daya Bay Qingyuan Environmental Protection Co., Limited ("Huizhou Daya Bay Qingyuan") and Huizhou Daya Bay Yiyuan Purified Water Co., Limited ("Huizhou Daya Bay Yiyuan ") from Huizhou Investment. Huizhou Daya Bay Running Water, Huizhou Daya Bay Qingyuan and Huizhou Daya Bay Yiyuan are mainly engaged in the supply of raw water, tap water and purified water, water supply network engineering and sewage treatment in Huizhou City, Guangdong Province, the PRC.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 48 to the financial statements.

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 2008.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 49 to the financial statements.

AUDITORS

Grant Thornton retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Duan Chuan Liang

Chairman

Hong Kong, 29 July 2008



Member of Grant Thornton International Ltd

To the members of China Water Affairs Group Limited

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

We have audited the consolidated financial statements of China Water Affairs Group Limited (the "Company") set out on pages 33 to 152, which comprise the consolidated and company balance sheets as at 31 March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

32 Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton

Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

29 July 2008

Consolidated Income Statement 33

For the year ended 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000 (restated)
Continuing operations			
Revenue	5	765,538	134,735
Cost of sales		(498,531)	(78,521)
Gross profit		267,007	56,214
Valuation surplus on investment properties		104,987	40,890
Fair value gain on financial assets at fair value through profit or loss		279,264	102,266
Other income	5	64,263	35,098
Selling and distribution costs		(21,098)	(9,705)
Administrative expenses		(131,461)	(67,537)
Equity-settled share options expenses		(49,526)	–
Other operating expenses		(9,626)	(7,613)
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)		(66,092)	–
Impairment loss on available-for-sale financial assets		(73,457)	–
Loss on disposal of subsidiaries		–	(357)
Profit from operation	7	364,261	149,256
Finance costs	8	(67,421)	(19,475)
Share of results of associates		13,644	9
Profit before income tax		310,484	129,790
Income tax expense	9	(135,111)	(44,512)
Profit for the year from continuing operations		175,373	85,278
Discontinued operation			
Profit for the year from a discontinued operation	10	344,631	17,666
Profit for the year		520,004	102,944
Attributable to:			
Equity holders of the Company	11	427,242	63,379
Minority interests		92,762	39,565
Profit for the year		520,004	102,944

34 Consolidated Income Statement

For the year ended 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000 (restated)
Earnings per share attributable to equity holders of the Company during the year			
Basic			
	12	HK cents	HK cents
– For profit for the year		34.62	6.55
– For profit from continuing operations		6.34	5.52
Diluted			
– For profit for the year		34.15	6.13
– For profit from continuing operations		6.26	5.17

Consolidated Balance Sheet 35

As at 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	1,304,053	715,372
Prepaid land lease payments	15	192,152	105,314
Investment properties	16	276,978	139,000
Interests in associates	18	99,088	975
Investment in debt securities	20	132,414	–
Other financial assets	19	359,888	41,506
Goodwill	21	103,634	80,350
Other intangible assets	22	145,502	130,000
Deposits	23	364,168	131,811
		2,977,877	1,344,328
Current assets			
Properties under development	24	21,747	7,650
Biological assets	25	–	–
Inventories	26	39,596	18,117
Trade receivables	27	355,882	23,476
Other financial assets	19	296,314	228,975
Due from minority equity holders of subsidiaries	35	18,427	6,573
Due from former subsidiaries	35	–	8,054
Due from associates	35	–	10,128
Prepayments, deposits and other receivables	29	188,659	91,614
Conversion options embedded in convertible bonds	20, 30	69,824	–
Bank balance held in escrow		–	94
Pledged deposit	31	35,333	–
Cash and cash equivalents	31	422,773	520,281
		1,448,555	914,962
Current liabilities			
Trade payables	32	164,792	30,903
Construction contracts	28	20,668	–
Accrued liabilities, deposits received and other payables	33	340,965	197,841
Borrowings	34	181,892	129,235
Due to a director	35	–	5,652
Due to minority equity holders of subsidiaries	35	229,657	185,761
Provision for tax		67,951	6,480
Derivative financial instruments	37	94,635	–
		1,100,560	555,872
Net current assets		347,995	359,090
Total assets less current liabilities		3,325,872	1,703,418

36 Consolidated Balance Sheet

As at 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Non-current liabilities			
Borrowings	34	381,417	299,420
Deferred government grants	36	14,518	11,856
Convertible bonds	37	590,250	64,900
Deferred tax liabilities	38	113,343	42,945
		1,099,528	419,121
Net assets			
		2,226,344	1,284,297
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	39	12,398	11,898
Reserves		1,745,186	1,032,301
		1,757,584	1,044,199
Minority interests			
		468,760	240,098
Total equity			
		2,226,344	1,284,297

Duan Chuan Liang
Director

Li Ji Sheng
Director

Consolidated Statement of Changes in Equity 37

For the year ended 31 March 2008

Equity attributable to equity holders of the Company

	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Share option reserve HK\$'000	Convertible bond equity HK\$'000	Other reserves HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	(Accumulated losses)/ earnings		Minority interests HK\$'000	Total equity HK\$'000	
											Statutory reserves HK\$'000	Retained earnings HK\$'000			
Balance at 1 April 2006	8,298	306,801	-	340	70,725	(3,598)	26,242	-	-	-	-	(167,478)	241,330	97,859	339,189
Issue of convertible bonds	-	-	-	-	-	-	-	10,413	-	-	-	-	10,413	-	10,413
Convertible bonds exercised	1,170	229,022	-	-	-	-	-	(8,087)	-	-	-	-	222,105	-	222,105
Placing and subscription of new shares	1,672	454,818	-	-	-	-	-	-	-	-	-	-	456,490	-	456,490
Share options exercised	758	77,615	-	-	-	-	(20,476)	-	-	-	-	-	57,897	-	57,897
Share issue expenses	-	(5,717)	-	-	-	-	-	-	-	-	-	-	(5,717)	-	(5,717)
Arising from deemed acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,837)	(11,837)
Arising from disposal of subsidiaries	-	-	-	(340)	-	-	-	-	-	-	-	-	(340)	(432)	(772)
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	119,828	119,828
Additional interest in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	(11,636)	-	-	-	(11,636)	(7,564)	(19,200)
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	-	2,045	(2,045)	-	-	-
Currency translation	-	-	-	-	-	10,278	-	-	-	-	-	-	10,278	2,679	12,957
Net income/(expense) recognised directly in equity	-	-	-	-	-	10,278	-	-	-	-	-	-	10,278	2,679	12,957
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	63,379	63,379	39,565	102,944
Total recognised income and expense for the year	-	-	-	-	-	10,278	-	-	-	-	-	63,379	73,657	42,244	115,901
Balance at 31 March 2007	11,898	1,062,539	-	-	70,725	6,680	5,766	2,326	(11,636)	-	2,045	(106,144)	1,044,199	240,098	1,284,297

38 Consolidated Statement of Changes in Equity

For the year ended 31 March 2008

Equity attributable to equity holders of the Company

	Share capital	Share premium account	Capital redemption reserve	Capital reserve	Contributed surplus	Exchange fluctuation reserve	Share option reserve	Convertible bond equity reserve	Other reserves	Available-	(Accumulated		Minority interests	Total equity	
										for-sale financial assets revaluation reserve	Statutory reserves	Retained earnings			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2007	11,898	1,062,539	-	-	70,725	6,680	5,766	2,326	(11,636)	-	2,045	(106,144)	1,044,199	240,098	1,284,297
Convertible bonds exercised	338	67,548	-	-	-	-	-	(2,326)	-	-	-	-	65,560	-	65,560
Placing and subscription of new shares	141	46,798	-	-	-	-	-	-	-	-	-	-	46,939	-	46,939
Repurchase of shares	(12)	(5,273)	-	-	-	-	-	-	-	-	-	-	(5,285)	-	(5,285)
Share repurchase expenses	-	(19)	-	-	-	-	-	-	-	-	-	-	(19)	-	(19)
Equity-settled share option arrangements	-	-	-	-	-	-	49,526	-	-	-	-	-	49,526	-	49,526
Share options exercised	33	2,524	-	-	-	-	(604)	-	-	-	-	-	1,953	-	1,953
Share issue expenses	-	(122)	-	-	-	-	-	-	-	-	-	-	(122)	-	(122)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	121,389	121,389
Arising from disposal of subsidiaries	-	-	-	-	-	(3,364)	-	-	11,636	-	-	-	8,272	(30,243)	(21,971)
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	46,699	46,699
Additional interest in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	7,141	-	-	-	7,141	(23,538)	(16,397)
Transfer to capital redemption reserve	-	-	12	-	-	-	-	-	-	-	-	(12)	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	-	18,883	(18,883)	-	-	-
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	15,863	-	-	15,863	-	15,863
Currency translation	-	-	-	-	-	96,315	-	-	-	-	-	-	96,315	21,593	117,908
Net income(expense) recognised directly in equity	-	-	-	-	-	96,315	-	-	-	15,863	-	-	112,178	21,593	133,771
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	427,242	427,242	92,762	520,004
Total recognised income and expense for the year	-	-	-	-	-	96,315	-	-	-	15,863	-	427,242	539,420	114,355	653,775
Balance at 31 March 2008	12,398	1,173,995	12	-	70,725	99,631	54,688	-	7,141	15,863	20,928	302,203	1,757,584	468,760	2,226,344

Consolidated Cash Flow Statement 39

For the year ended 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Cash flows from operating activities			
Profit before income tax		655,115	151,678
Adjustments for:			
Finance costs	8	67,421	19,475
Share of results of associates		(13,644)	(9)
Interest income	5	(16,487)	(10,319)
Dividend income from financial assets	5	(8,317)	–
Amortisation of deferred government grants	5	(950)	(344)
Depreciation	7	64,001	22,504
Amortisation of prepaid land lease payments	7	3,317	774
Amortisation of other intangible assets	7	5,762	–
Loss/(gain) on disposal of property, plant and equipment	7	395	(85)
Write off on property, plant and equipment	7	326	762
Gain on disposal of land use rights	7	(181)	–
Valuation surplus on investment properties	16	(104,987)	(40,890)
Equity-settled share options expenses	7	49,526	–
Excess over the cost of a business combination recognised in the income statement	5	(18,215)	(4,716)
(Gain)/loss on disposal of subsidiaries	10, 43	(353,219)	357
Fair value gain on financial assets at fair value through profit or loss		(279,264)	(102,266)
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)		66,092	–
Impairment loss on available-for-sale financial assets		73,457	–
Trade receivables written off	7	2,931	–
Impairment loss on amounts due from former subsidiaries	7	6,457	5,015
Impairment loss on other receivables	7	197	89
Inventories written off	7	348	989
Convertible bonds issuance expenses charged to income statement		2,159	–
Operating profit before working capital changes		202,240	43,014
Decrease in financial assets at fair value through profit or loss		232,084	7,185
Increase in properties under development		(13,271)	(7,650)
Increase in inventories		(16,590)	(6,774)
Increase in trade receivables		(323,231)	(3,412)
Decrease in amounts due from former subsidiaries		1,597	1,532
Decrease in amounts due from associates		10,128	–
Decrease/(Increase) in prepayments, deposits and other receivables		100,891	(37,133)
Increase in trade payables		61,153	8,221
Increase in construction contracts		20,668	–
Increase in accrued liabilities, deposits received and other payables		90,279	22,238
Cash generated from operations		365,948	27,221
Interest paid on bank and other borrowings		(37,776)	(9,886)
Interest on convertible bonds		(478)	(2,025)
Income taxes paid		(6,185)	(1,960)
Net cash generated from operating activities		321,509	13,350

40 Consolidated Cash Flow Statement

For the year ended 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Cash flows from investing activities			
Interest received		16,487	10,319
Dividend received		8,317	–
Purchase of property, plant and equipment		(133,197)	(82,251)
Proceeds from disposal of property, plant and equipment		170	655
Land lease payments prepaid		(29,773)	(23,638)
Proceeds from disposal of land use rights		2,687	–
Purchase of investment properties		(17,991)	(98,110)
Purchase of sewage treatment concession rights		–	(80,000)
Purchase of water supply concession rights		(7,442)	–
Deposits paid		(363,200)	(131,811)
Acquisition of subsidiaries and businesses (net of cash and cash equivalent acquired)	42	(199,054)	(226,652)
Acquisition of minority interests		(16,397)	(19,200)
Disposal of subsidiaries (net of cash and cash equivalent disposed)	43	(14,230)	–
Investments in associates		(60,000)	–
Dividends received from associates		10,794	–
Purchases of available-for-sale financial assets		(231,748)	(39,826)
Proceeds from disposal of available-for-sale financial assets		1,000	–
Decrease/(Increase) in bank balance held in escrow		94	(94)
Increase in pledged deposit		(35,333)	–
Government grants received		2,366	1,000
Net cash used in investing activities		<u>(1,066,450)</u>	<u>(689,608)</u>
Cash flows from financing activities			
Proceeds from issue of convertible bonds	37	650,000	300,000
Convertible bonds issue expenses		(14,217)	(13,979)
Proceeds from issue of new shares	39	48,892	514,387
Share issue expenses		(122)	(5,717)
Repurchase of shares	39	(5,285)	–
Share repurchase expenses		(19)	–
Repayment to a director		(5,652)	(2,415)
Repayment to minority equity holders of subsidiaries of the Company		(115,544)	(25,562)
Drawdown of bank loans		140,261	251,800
Repayment of bank loans		(117,586)	(47,930)
Drawdown of other borrowings		22,978	6,450
Repayment of other borrowings		(7,015)	(39,386)
Injection by minority equity holders of subsidiaries of the Company		26,008	16,047
Capital element of finance lease payments		–	(837)
Net cash generated from financing activities		<u>622,699</u>	<u>952,858</u>
Net (decrease)/increase in cash and cash equivalents		<u>(122,242)</u>	<u>276,600</u>
Cash and cash equivalents at beginning of year		<u>520,281</u>	<u>235,036</u>
Effect of foreign exchange rates, net		<u>24,734</u>	<u>8,645</u>
Cash and cash equivalents at end of year		<u><u>422,773</u></u>	<u><u>520,281</u></u>
Analysis of cash and cash equivalents			
Bank and cash balances		<u><u>422,773</u></u>	<u><u>520,281</u></u>

Balance Sheet 41

As at 31 March 2008

	Notes	2008 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	2,143	1,611
Interests in subsidiaries	17	899,526	559,515
Deposits	23	141,444	40,000
		<u>1,043,113</u>	<u>601,126</u>
Current assets			
Due from subsidiaries	17	573,975	165,429
Prepayments, deposits and other receivables	29	21,786	6,123
Other financial assets	19	1,561	5,835
Bank balance held in escrow		–	94
Cash and cash equivalents	31	165,943	269,022
		<u>763,265</u>	<u>446,503</u>
Current liabilities			
Due to subsidiaries	17	27,904	4,805
Accrued liabilities and other payables	33	10,690	26,050
Derivative financial instruments	37	94,635	–
		<u>133,229</u>	<u>30,855</u>
Net current assets		<u>630,036</u>	<u>415,648</u>
Total assets less current liabilities		<u>1,673,149</u>	<u>1,016,774</u>
Non-current liabilities			
Convertible bonds	37	590,250	64,900
		<u>590,250</u>	<u>64,900</u>
Net assets		<u>1,082,899</u>	<u>951,874</u>
EQUITY			
Share capital	39	12,398	11,898
Reserves	41	1,070,501	939,976
Total equity		<u>1,082,899</u>	<u>951,874</u>

Duan Chuan Liang
Director

Li Ji Sheng
Director

42 Notes to the Financial Statements

For the year ended 31 March 2008

1. CORPORATE INFORMATION

China Water Affairs Group Limited (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 equity holders 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 Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Company's principal place of business is Suite 6408, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. The Group was also engaged in cultivation and sale of sea buckthorn's seedlings and products, which the Group has discontinued in the current year (see note 10).

The financial statements on pages 33 to 152 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 April 2007, the Group has adopted all the new and amended HKFRSs which are first effective on 1 April 2007 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Company's and the Group's accounting policies, but resulted in additional disclosures. In particular, the impact of the adoption of HKFRS 7 Financial Instruments: Disclosure and HKAS 1 (Amendment): Capital Disclosures has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

New or amended HKFRSs that have been issued but are not yet effective:

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective for the year ended 31 March 2008.

HKAS 1 (Revised)	Presentation of Financial Statements ³
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKAS 23 (Revised)	Borrowing Costs ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 32 (Amendment)	Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ³
HKFRS 3 (Revised)	Business Combinations – Comprehensive Revision on Applying the Acquisition Method ⁴
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Puttable Financial Instruments and Obligations Arising on Liquidation ³
HKFRS 8	Operating Segments ³
HK(IFRIC)–Int 2 (Amendment)	Members' Shares in Co-operative Entities and Similar Instruments ³
HK(IFRIC)–Int 12	Service Concession Arrangements ¹
HK(IFRIC)–Int 13	Customer Loyalty Programmes ²
HK(IFRIC)–Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ¹

Notes:

¹ Effective for annual periods beginning on or after 1 January 2008

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 January 2009

⁴ Effective for annual periods beginning on or after 1 July 2009

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For the year ended 31 March 2008

2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties, biological assets, certain financial assets and derivative financial instruments (including conversion options embedded in convertible bonds) which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as the "Group") made up to 31 March each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries (Continued)

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture (see note 3.3);
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture (see note 3.5); or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, generally less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture (see note 3.16).

3.5 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Associates (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.14) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK\$. Assets and liabilities have been translated into HK\$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK\$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 April 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

3.7 Revenue

Revenue comprises the fair value for the sale of goods and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- (i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;
- (ii) Revenue from hotel or sightseeing services is recognised based on the period in which such services have been rendered;
- (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 regulatory authority in the People's Republic of China excluding Hong Kong (the "PRC");
- (v) Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably;
- (vi) Revenue from customer-related long-term construction contracts is recognised by reference to the percentage of completion of the contract at the balance sheet date (see note 3.19);
- (vii) Dividend is recognised when the right to receive payment is established; and
- (viii) Interest income is recognised on a time-proportion basis using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Biological assets

Biological assets represent seedlings which are stated at fair value less estimated point-of-sale costs. The fair value of biological assets is determined based on market prices of seedlings of similar age, breed and genetic merit and with reference to the most recent market transaction prices. Gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs, or from a change in the fair value less estimated point-of-sale costs of the biological assets is included in the income statement for the period in which it arises.

3.9 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.5.

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.14).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Depreciation on the following property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Leasehold 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
Furniture, equipment and motor vehicles	5 years
Vessels	10 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents leasehold buildings, plant and machineries and water pipelines under construction and is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.11 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Investment properties

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

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time it is reclassified as investment property. Any changes between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

3.13 Intangible assets (other than goodwill)

The Group's intangible assets (other than goodwill) represent the rights to operate a sewage treatment plant and a water supply plant in the PRC.

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for the rights to operate a sewage treatment plant and a water supply plant with finite useful lives are provided on straight-line basis over their estimated useful lives of 25 years and 30 years respectively. Both period and method of amortisation are reviewed annually.

3.14 Impairment of assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, prepaid land lease prepayments, other intangible assets, interests in subsidiaries and associates are subject to impairment testing.

Goodwill and intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Impairment of assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other non-financial assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.15 Leases

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

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.12).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Leases (Continued)

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

3.16 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Classification of financial assets

Financial assets other than hedging instruments are classified into the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, and (iii) available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Financial assets (Continued)

Classification of financial assets (Continued)

(i) Financial assets at fair value through profit or loss (Continued)

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fee that are an integral part of the effective interest rate and transaction cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Financial assets (Continued)

Classification of financial assets (Continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

Recognition and derecognition of financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Financial assets (Continued)

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement for the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement for the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of investment in debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment losses were recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and weight average basis, and in the case of work in progress and finished goods, comprise 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 cost of completion and applicable selling expenses.

3.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Construction contracts

The Group's construction contracts specify a fixed price for construction projects.

Revenue on construction contracts is determined using the percentage of completion method. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract. If the contract is considered profitable, it is valued at cost plus attributable profits by reference to the percentage of completion. Any expected loss on individual construction contracts is recognised immediately as an expense in the income statement.

3.20 Cash and cash equivalents

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

For the purpose of the balance sheets, bank and cash balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3.21 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits) to the extent they are incremental costs directly attributable to the equity transaction.

3.22 Employee benefits

(i) Retirement benefit obligations

The Group contributes to a defined contribution retirement benefit scheme ("MPF scheme") under the Mandatory Provident Fund Scheme Ordinance which are available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the MPF scheme.

The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Employee benefits (Continued)

(ii) *Share-based employee compensation*

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to equity share option reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

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

3.23 Financial liabilities

The Group's financial liabilities include trade payables, other payables, borrowings, amount due to a director, amounts due to minority equity holders of subsidiaries and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

(i) *Trade and other payables*

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Financial liabilities (Continued)

(ii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(iii) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

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

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Financial liabilities (Continued)

(iv) *Other convertible bonds*

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

(v) *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.15).

3.24 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into or the derivative is separated from the host contracts and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 Related parties

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs. Government grants relating to the purchase of assets are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

3.27 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.28 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.29 Properties under development

Properties held under development for future sale in the ordinary course of business are included in current assets and stated at the lower of cost and net realisable value. Cost comprises the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated selling expenses.

No depreciation is provided on properties held under development.

On completion, the properties are transferred to properties held for sale.

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For the year ended 31 March 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.30 Segment reporting

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 segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, goodwill, property, plant and equipment, prepaid land lease payments, inventories and trade receivables, and mainly exclude corporate assets, available-for-sale financial assets and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to intangible assets, property, plant and equipment and prepaid land lease payments.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3.31 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if early. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises prepaid land lease payments and the intangible assets (other than goodwill) in accordance with the accounting policies stated in note 3.10, note 3.11 and note 3.13 respectively. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

(ii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. The management of the Group reassesses the impairment of receivables at the balance sheet date.

(iii) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below carrying value is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the management of the Group takes into account factors such as industry and sector performance and financial information regarding the investee.

(iv) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

(v) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

(vi) Valuation for biological assets

The Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each balance sheet date. These estimates are based on the current market condition, the knowledge and experience of the Group's management.

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For the year ended 31 March 2008

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(vii) Estimate fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- a. current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- b. recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- c. discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(viii) Construction contracts

As explained in accounting policies stated in notes 3.7 and 3.19, revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts record to date.

(ix) Income taxes

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

(x) Land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. However, the implementation and settlement of this tax varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its LAT calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related LAT. The Group recognised LAT based on management's best estimates according to their understanding on the tax rules.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(xi) Valuation for derivative financial instruments (including conversion options embedded in convertible bonds)

During the year ended 31 March 2008, the Company issued zero coupon convertible bonds due 2012 with an aggregate principal amount of HK\$650,000,000. The convertible bonds were issued with a conversion price of HK\$7 per share and will mature on 3 August 2012. The embedded derivatives consisting of the conversion and redemption options have been separated from the host debt contract and accounted for as derivative financial instruments (note 37).

During the year ended 31 March 2008, the Group acquired the convertible bonds due 2017 with an aggregate principal amount of HK\$180,050,000. The convertible bonds were acquired with a conversion price of HK\$0.15 per share and will mature on 13 November 2017. The embedded derivatives consisting of the conversion option have been separated from the host debt contract and accounted for as conversion options embedded in convertible bonds (note 30).

The fair values of these derivative financial instruments are determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and each balance sheet date. The valuation model requires the input of subjective assumptions, including the stock price, expected volatility, expected dividend yield, risk free rate and expected life. Changes in subjective input assumptions can materially affect the fair value estimate. For the year ended 31 March 2008, the net fair value loss resulting from change in fair value of the derivative component of convertible bonds (including conversion options embedded in convertible bonds) was approximately HK\$66,092,000.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, derived from the Group's principal activities recognised during the year is as follows:

	Continuing operations		Group Discontinued operation		Consolidated	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue:						
Sales of goods	73,195	30,760	6,960	5,609	80,155	36,369
Water supply	240,332	55,790	–	–	240,332	55,790
Water supply related installation Infrastructure construction revenue	128,656	41,712	–	–	128,656	41,712
Sewage treatment	281,918	–	–	–	281,918	–
Hotel and rental income	26,760	–	–	–	26,760	–
Others	6,777	6,398	–	–	6,777	6,398
	7,900	75	–	–	7,900	75
Total	765,538	134,735	6,960	5,609	772,498	140,344

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For the year ended 31 March 2008

5. REVENUE AND OTHER INCOME (Continued)

	Continuing operations		Group Discontinued operation		Consolidated	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Other income:						
Excess over the cost of a business combination recognised in the income statement (note 42(b))	18,215	4,716	–	–	18,215	4,716
Interest income	16,436	10,131	51	188	16,487	10,319
Government grants and subsidies [#]	2,808	12,267	–	13,480	2,808	25,747
Amortisation of deferred government grants	950	344	–	–	950	344
Gain on disposal of property, plant and equipment	–	85	–	–	–	85
Gain on disposal of land use rights	181	–	–	–	181	–
Dividend income from financial assets	8,317	–	–	–	8,317	–
Miscellaneous income	17,356	7,555	922	242	18,278	7,797
Total	64,263	35,098	973	13,910	65,236	49,008

[#] Government grants and subsidies mainly comprised (i) unconditional monetary award of RMB13,480,000 from relevant authorities in the PRC in respect of the Group's significant contribution in environmental protection arising from its participation in sea buckthorn's business during the year ended 31 March 2007 and (ii) unconditional subsidies of HK\$2,808,000 (2007: RMB8,200,000) for subsidising the Group's water supply business.

6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's businesses segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary of details of the business segments are as follows:

- (i) "Water" segment, which is presented as "City water supply" and "Sewage treatment" segments, involves the provision of water supply and sewage treatment;
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation;
- (iii) "Infrastructure construction" segment involves construction of road and other municipal works;
- (iv) "Concrete products and others" segment involves manufacture and sale of concrete products and others; and
- (v) "Sea buckthorn related business" segment, which was disposed of during the year ended 31 March 2008 (note 10), involves cultivation, manufacture and sale of sea buckthorn seedling and sea buckthorn based products.

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For the year ended 31 March 2008

6. SEGMENT INFORMATION (Continued)

Business segments

For the financial year ended 31 March 2008

	Continuing operations					Total	Discontinued operation	Consolidated
	City water supply	Sewage treatment	Property development and investment	Infrastructure construction	Concrete products and others		Sea buckthorn related business	
							HK\$'000	
Segment revenue								
External customers	255,204	26,760	–	281,918	73,000	636,882	6,960	643,842
Installation income	128,650	–	–	–	6	128,656	–	128,656
Revenue	383,854	26,760	–	281,918	73,006	765,538	6,960	772,498
Other income	11,819	22	–	–	1,290	13,131	922	14,053
Total	395,673	26,782	–	281,918	74,296	778,669	7,882	786,551
Segment results	79,791	13,772	(998)	85,115	1,410	179,090	(8,639)	170,451
Interest income								16,487
Unallocated corporate income								38,011
Unallocated corporate expense								(64,452)
Valuation surplus on investment properties			104,987					104,987
Fair value gain on financial assets at fair value through profit or loss								279,264
Equity-settled share options expenses								(49,526)
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)								(66,092)
Impairment loss on available-for-sale financial assets								(73,457)
Gain on disposal of subsidiaries							353,219	353,219
Profit from operation								708,892
Finance costs								(67,421)
Share of results of associates	13,644							13,644
Profit before income tax								655,115
Income tax expense								(135,111)
Profit for the year								520,004

6. SEGMENT INFORMATION (Continued)

Business segments (Continued)

As at 31 March 2008

	Continuing operations					Total HK\$'000	Discontinued operation	Consolidated HK\$'000
	City water supply HK\$'000	Sewage treatment HK\$'000	Property development and investment HK\$'000	Infrastructure construction HK\$'000	Concrete products and others HK\$'000		Sea buckthorn related business HK\$'000	
ASSETS								
Segment assets	1,887,011	144,602	304,461	385,525	98,265	2,819,864	-	2,819,864
Interests in associates	99,088	-	-	-	-	99,088	-	99,088
	<u>1,986,099</u>	<u>144,602</u>	<u>304,461</u>	<u>385,525</u>	<u>98,265</u>	<u>2,918,952</u>	<u>-</u>	<u>2,918,952</u>
Unallocated corporate assets								1,507,480
Consolidated total assets								<u>4,426,432</u>
LIABILITIES								
Segment liabilities	<u>341,818</u>	<u>7,117</u>	<u>11,197</u>	<u>134,529</u>	<u>27,018</u>	<u>521,679</u>	<u>-</u>	521,679
Unallocated corporate liabilities								1,678,409
Consolidated total liabilities								<u>2,200,088</u>
Other segment information								
Depreciation and amortisation	59,525	-	-	40	6,727	66,292	1,026	67,318
Amortisation of deferred government grants	(950)	-	-	-	-	(950)	-	(950)
Amortisation of other intangible assets	200	5,562	-	-	-	5,762	-	5,762
Capital expenditure	504,240	1,080	3	-	52,858	558,181	13,244	571,425
Loss on disposal of property, plant and equipment	395	-	-	-	-	395	-	395
Gain on disposal of land use rights	(181)	-	-	-	-	(181)	-	(181)
Write off on property, plant and equipment	7	-	-	-	319	326	-	326
Valuation surplus on investment properties	-	-	104,987	-	-	104,987	-	104,987
Inventories written off	348	-	-	-	-	348	-	348
Impairment loss on other receivables	197	-	-	-	-	197	-	197
Impairment loss on amounts due from former subsidiaries	-	6,457	-	-	-	6,457	-	6,457
Trade receivables written off	<u>2,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>625</u>	<u>2,931</u>	<u>-</u>	<u>2,931</u>

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6. SEGMENT INFORMATION (Continued)

Business segments (Continued)

For the financial year ended 31 March 2007

	Continuing operations					Total	Discontinued operation	Consolidated
	City water supply	Sewage treatment	Property development and investment	Infrastructure construction	Concrete products and others		Sea buckthorn related business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue								
External customers	55,865	-	-	-	37,158	93,023	5,609	98,632
Installation income	41,712	-	-	-	-	41,712	-	41,712
Revenue	97,577	-	-	-	37,158	134,735	5,609	140,344
Other income	10,810	-	135	-	675	11,620	36,962	48,582
Total	108,387	-	135	-	37,833	146,355	42,571	188,926
Segment results	26,074	(701)	(1,562)	-	78	23,889	20,751	44,640
Interest income								10,319
Unallocated corporate income								13,348
Unallocated corporate expense								(39,962)
Valuation surplus on investment properties			40,890					40,890
Fair value gain on financial assets at fair value through profit or loss								102,266
Loss on disposal of subsidiaries								(357)
Profit from operation								171,144
Finance costs								(19,475)
Share of results of associates	9							9
Profit before income tax								151,678
Income tax expense								(48,734)
Profit for the year								102,944

6. SEGMENT INFORMATION (Continued)

Business segments (Continued)

As at 31 March 2007

	Continuing operations					Total	Discontinued operation	Consolidated
	City water supply	Sewage treatment	Property development and investment	Infrastructure construction	Concrete products and others		Sea buckthorn related business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS								
Segment assets	1,033,717	164,626	147,830	64,450	35,799	1,446,422	84,010	1,530,432
Interests in associates	975	-	-	-	-	975	-	975
	<u>1,034,692</u>	<u>164,626</u>	<u>147,830</u>	<u>64,450</u>	<u>35,799</u>	<u>1,447,397</u>	<u>84,010</u>	<u>1,531,407</u>
Unallocated corporate assets								727,883
Consolidated total assets								<u>2,259,290</u>
LIABILITIES								
Segment liabilities	694,743	100,022	4,354	-	10,900	810,019	19,504	829,523
Unallocated corporate liabilities								145,470
Consolidated total liabilities								<u>974,993</u>
Other segment information								
Depreciation and amortisation	18,158	-	-	-	3,873	22,031	1,247	23,278
Amortisation of deferred government grants	(344)	-	-	-	-	(344)	-	(344)
Capital expenditure	519,377	130,034	-	233	8,083	657,727	32,638	690,365
Loss/(gain) on disposal of property, plant and equipment	15	-	18	-	2	35	(120)	(85)
Write off on property, plant and equipment	762	-	-	-	-	762	-	762
Valuation surplus on investment properties	-	-	40,890	-	-	40,890	-	40,890
Inventories written off	89	-	-	-	-	89	900	989
Impairment loss on other receivables	89	-	-	-	-	89	-	89
Impairment loss on amounts due from former subsidiaries	-	5,015	-	-	-	5,015	-	5,015

Certain comparative amounts have been reclassified to confirm with presentation in the current year.

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6. SEGMENT INFORMATION (Continued)

Geographical segments

A geographical analysis of the Group's revenue, assets and capital expenditure information is not presented as the Group's revenue, results and assets in geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

7. PROFIT FROM OPERATION

Profit from operation is arrived at after charging/(crediting):

	Group					
	Continuing operations		Discontinued operation		Consolidated	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Cost of inventories sold	498,531	78,521	3,330	3,665	501,861	82,186
Depreciation	62,939	21,306	1,062	1,198	64,001	22,504
Amortisation of prepaid land lease payments	3,307	725	10	49	3,317	774
Amortisation of other intangible assets	5,762	–	–	–	5,762	–
Operating leases in respect of leasehold land and buildings	4,774	2,496	759	251	5,533	2,747
Auditors' remuneration						
– current year	5,350	2,680	–	–	5,350	2,680
– under provision in prior year	–	250	–	–	–	250
	5,350	2,930	–	–	5,350	2,930
Staff costs (excluding directors' remuneration – note 13):						
Salaries and wages	82,738	31,660	2,418	3,709	85,156	35,369
Equity-settled share option expenses	49,526	–	–	–	49,526	–
Retirement scheme contribution	1,172	696	264	106	1,436	802
	133,436	32,356	2,682	3,815	136,118	36,171
Loss/(gain) on disposal of property, plant and equipment	395	35	–	(120)	395	(85)
Gain on disposal of land use rights	(181)	–	–	–	(181)	–
Write off on property, plant and equipment	326	762	–	–	326	762
Inventories written off	348	89	–	900	348	989
Impairment loss on other receivables	197	89	–	–	197	89
Trade receivables written off	2,931	–	–	–	2,931	–
Impairment loss on amounts due from former subsidiaries	6,457	5,015	–	–	6,457	5,015

8. FINANCE COSTS

	Group	
	Continuing operations	
	2008	2007
	HK\$'000	HK\$'000
Interest on bank loans		
– wholly repayable within five years	25,617	2,365
– not wholly repayable within five years	5,555	5,738
Interest on other borrowings		
– wholly repayable within five years	3,432	129
– not wholly repayable within five years	1,013	1,595
Interest on convertible bonds	34,834	13,422
Convertible bonds issuance expenses charged to income statement	2,159	–
Interest on finance leases	–	59
	<hr/>	<hr/>
Total borrowing costs	72,610	23,308
Less: interest capitalised included in property, plant and equipment	(5,189)	(3,833)
	<hr/>	<hr/>
	67,421	19,475
	<hr/> <hr/>	<hr/> <hr/>

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For the year ended 31 March 2008

9. INCOME TAX EXPENSE

(a) Income tax expense in the income statement represents:

	Group					
	Continuing operations		Discontinued operation		Consolidated	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Current						
– Hong Kong profits tax	4,709	–	–	–	4,709	–
– Overseas taxation	66,862	1,567	–	4,222	66,862	5,789
	71,571	1,567	–	4,222	71,571	5,789
Deferred (note 38)						
– Current year	74,179	42,945	–	–	74,179	42,945
– Attributable to change in tax rates	(10,639)	–	–	–	(10,639)	–
	63,540	42,945	–	–	63,540	42,945
Total tax charge for the year	135,111	44,512	–	4,222	135,111	48,734

Hong Kong profits tax has been provided at the rate of 17.5% on the estimate assessable profits arising in Hong Kong during the year (2007: Nil). Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. INCOME TAX EXPENSE (Continued)

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

	Group	
	2008 HK\$'000	2007 HK\$'000
Profit before income tax		
Continuing operations	310,484	129,790
Discontinued operation	344,631	21,888
	<u>655,115</u>	<u>151,678</u>
Tax at applicable rate of 17.5%	114,645	26,544
Tax effect of non-taxable items	(80,539)	(4,100)
Tax effect of non-deductible items	52,421	6,756
Utilisation of tax losses not previously recognised	(28)	(104)
Tax effect of unused tax losses not recognised	5,998	6,550
Tax concession	(30,622)	(11,039)
Tax effect of taxable temporary differences not recognised	(235)	830
Tax effect of change in tax rates	(10,639)	–
Tax effect of share of after tax profit of associates	(3,411)	(3)
Effect of different tax rates of subsidiaries operating in other jurisdictions	87,521	23,300
Income tax expense for the year	<u>135,111</u>	<u>48,734</u>

- (c) At the balance sheet date, the Group has unused tax losses of HK\$65,539,000 (2007: HK\$34,177,000) available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.
- (d) At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK\$10,098,000 (2007: Nil). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

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10. DISCONTINUED OPERATION

During the year ended 31 March 2008, the Group disposed of 100% equity interest in China Environmental Water Holdings Limited ("CEWHL") to China Botanic Development Holdings Ltd. ("CBDH") (formerly known as "Wah Yuen Holdings Limited"), a company listed on the main board of the Stock Exchange for an aggregate consideration of HK\$200,000,000. The consideration is satisfied by CBDH issuing (i) 133,000,000 ordinary shares for HK\$0.15 each (note 19), (ii) the convertible notes in the principal amount of HK\$180,050,000 (note 20), and (iii) waiver of amounts due from CEWHL and its subsidiaries by the Group of HK\$19,258,000. CEWHL is an investment holding company which held 50% equity interest in 高原聖果沙棘制品有限公司. 高原聖果沙棘制品有限公司 and its subsidiaries are principally engaged in cultivation, manufacture and sale of sea buckthorn seedlings and sea buckthorn based products.

An analysis of the results and cash flows of the discontinued operation included in the consolidated income statement and the consolidated cash flow statement are as follows:

	2008 HK\$'000	2007 HK\$'000
Profit for the year from a discontinued operation		
Revenue	6,960	5,609
Cost of sales	<u>(3,330)</u>	<u>(3,665)</u>
Gross profit	3,630	1,944
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	–	23,241
Other income	973	13,910
Selling and distribution costs	(1,520)	(2,561)
Administrative expenses	(7,749)	(7,495)
Other operating expenses	<u>(3,922)</u>	<u>(7,151)</u>
(Loss)/profit before income tax	(8,588)	21,888
Income tax expense	–	(4,222)
	(8,588)	17,666
Gain on disposal of subsidiaries (note 43(a))	<u>353,219</u>	–
Profit for the year from a discontinued operation	<u><u>344,631</u></u>	<u><u>17,666</u></u>
Cash flows generated from a discontinued operation		
Net cash generated from/(used in) operating activities	20,050	(697)
Net cash used in investing activities	(10,266)	(36,471)
Net cash generated from financing activities	–	3,450
Net cash inflow/(outflow)	<u><u>9,784</u></u>	<u><u>(33,718)</u></u>

10. DISCONTINUED OPERATION (Continued)

	2008 HK cents	2007 HK cents
Earning per share:		
Basic, from discontinued operation	28.28	1.03
Diluted, from discontinued operation	27.89	0.96

The calculation of basic and diluted earnings per share from the discontinued operation are based on:

	2008	2007
Profit attributable to equity holders of the Company from the discontinued operation (note 12)	HK\$348,965,000	HK\$9,947,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,234,083,610	967,388,163
Add: Effect of exercise of share options	17,000,680	66,407,762
Weighted average number of ordinary shares used in the diluted earnings per share calculation	1,251,084,290	1,033,795,925

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK\$427,242,000 (2007: HK\$63,379,000), a loss of HK\$27,115,000 (2007: profit of HK\$64,765,000) has been dealt with in the financial statements of the Company.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on :

	2008 HK\$'000	2007 HK\$'000
Earnings		
Profit attributable to equity holders of the Company	427,242	63,379
Less : Profit from discontinued operation	(344,631)	(17,666)
Result from discontinued operation attributable to minority interests	(4,334)	7,719
Profit attributable to equity holders of the Company from the discontinued operation	(348,965)	(9,947)
Profit attributable to equity holders of the Company from the continuing operations	78,277	53,432

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of HK\$427,242,000 (2007: HK\$63,379,000) and the profit for the year attributable to equity holders of the Company from the continuing operations of HK\$78,277,000 (2007: HK\$53,432,000) and on the weighted average of 1,234,083,610 (2007: 967,388,163) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the equity holders of the Company, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity holders of the Company from continuing operations and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to equity holders of the Company of HK\$427,242,000 (2007: HK\$63,379,000) and the profit for the year attributable to equity holders of the Company from the continuing operations of HK\$78,277,000 (2007: HK\$53,432,000) and on the weighted average of 1,251,084,290 (2007: 1,033,795,925) ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,234,083,610 (2007: 967,388,163) used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 17,000,680 (2007: 66,407,762).

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a) Directors' emoluments

	Fees HK'000	Salaries, allowances and benefits in kind HK'000	Bonuses HK'000	Employee share option benefits HK'000	Retirement scheme contribution HK\$'000	Total HK\$'000
2008						
Executive directors						
Mr. Duan Chuan Liang	–	2,528	600	31,399	12	34,539
Mr. Li Ji Sheng (i)	–	204	–	741	–	945
Non-executive directors						
Mr. Chen Guo Ru ^	–	180	–	371	–	551
Mr. Zhao Hai Hu	–	120	–	593	–	713
Mr. Zhou Wen Zhi	–	120	–	371	–	491
Mr. Wu Jiesi	–	60	–	741	–	801
Independent non-executive directors						
Ms. Huang Shao Yun	24	–	–	–	–	24
Mr. Chau Kam Wing, Donald	240	–	–	–	–	240
Mr. Ong King Keung	180	–	–	–	–	180
Ms. Liu Dong	72	–	–	–	–	72
	<u>516</u>	<u>3,212</u>	<u>600</u>	<u>34,216</u>	<u>12</u>	<u>38,556</u>
2007						
Executive directors						
Mr. Duan Chuan Liang	–	1,388	120	–	12	1,520
Mr. Chen Guo Ru ^	–	240	–	–	–	240
Non-executive directors						
Mr. Zhao Hai Hu	–	224	–	–	–	224
Mr. Chiu Shun Pui, Andrew *	–	–	–	–	–	–
Mr. Zhou Wen Zhi	–	120	–	–	–	120
Mr. Wu Jiesi	–	60	–	–	–	60
Independent non-executive directors						
Mr. Chen Lizhong *	61	–	–	–	–	61
Ms. Huang Shao Yun	24	–	–	–	–	24
Mr. Chan Chi Shing *	96	–	–	–	–	96
Mr. Chau Kam Wing, Donald #	–	–	–	–	–	–
Mr. Ong King Keung #	–	–	–	–	–	–
Ms. Liu Dong #	11	–	–	–	–	11
	<u>192</u>	<u>2,032</u>	<u>120</u>	<u>–</u>	<u>12</u>	<u>2,356</u>

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For the year ended 31 March 2008

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

(i) Appointed during the year ended 31 March 2008

^ Re-designated as non-executive director with effect from 25 May 2007. On the same date, Mr. Li Ji Sheng was appointed as executive director of the Company.

Appointed during the year ended 31 March 2007

* Resigned during the year ended 31 March 2007

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 March 2008 and 2007.

Details of the share options granted to directors of the Company are set out in note 40 to the financial statements.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included one director (2007: one director), details of whose emoluments have been disclosed in note (a) above. The emoluments paid to the remaining non-directors, highest paid individuals for the year are as follows:

	2008 HK\$'000	2007 HK\$'000
Salaries, allowances and other benefits	4,919	3,095
Employee share-based compensation expenses	3,949	–
Retirement scheme contribution	33	45
	<u>8,901</u>	<u>3,140</u>

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

	2008	2007
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	1	–

During the years ended 31 March 2008 and 2007, no emoluments were paid by the Group to the directors and the five highest paid employees of the Group as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

For the year ended 31 March 2008

14. PROPERTY, PLANT AND EQUIPMENT**Group**

	Leasehold 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	Vessels HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 April 2006									
Cost	27,691	8,106	89,099	87,546	579	10,420	-	15,358	238,799
Accumulated depreciation	(2,150)	(203)	(4,060)	(7,932)	(579)	(724)	-	-	(15,648)
Accumulated impairment	-	-	-	-	-	(163)	-	-	(163)
Net book amount	25,541	7,903	85,039	79,614	-	9,533	-	15,358	222,988
Year ended 31 March 2007									
Opening net book amount	25,541	7,903	85,039	79,614	-	9,533	-	15,358	222,988
Additions	172,014	3,855	50,139	146,023	-	13,741	-	75,459	461,231
Acquisition of subsidiaries	7,452	-	1,316	59,365	-	1,697	-	775	70,605
Disposals	(1,149)	(4)	(88)	(304)	-	(286)	-	-	(1,831)
Written-off	-	-	(17)	-	-	(745)	-	-	(762)
Transfers	4,031	-	5,566	34,244	-	47	-	(43,888)	-
Arising from deemed acquisition of subsidiaries	(11,411)	-	(296)	(11,245)	-	(275)	-	-	(23,227)
Depreciation	(2,122)	(2,045)	(10,271)	(5,555)	-	(2,511)	-	-	(22,504)
Exchange realignment	1,023	313	3,388	3,185	-	348	-	615	8,872
Closing net book amount	195,379	10,022	134,776	305,327	-	21,549	-	48,319	715,372
At 31 March 2007 and 1 April 2007									
Cost	204,903	12,264	150,588	333,445	-	26,068	-	48,319	775,587
Accumulated depreciation	(9,524)	(2,242)	(15,812)	(28,118)	-	(4,519)	-	-	(60,215)
Net book amount	195,379	10,022	134,776	305,327	-	21,549	-	48,319	715,372
Year ended 31 March 2008									
Opening net book amount	195,379	10,022	134,776	305,327	-	21,549	-	48,319	715,372
Additions	81,057	1,373	26,064	245,125	-	12,152	-	119,165	484,936
Acquisition of subsidiaries	26,340	-	6,381	90,941	-	3,855	16,320	157	143,994
Disposal of subsidiaries	(30,336)	(1,014)	(25,326)	-	-	(3,414)	-	(33)	(60,123)
Disposals	(14)	-	(37)	(5)	-	(509)	-	-	(565)
Written-off	-	-	-	-	-	(326)	-	-	(326)
Transfers	20,028	-	11,976	23,091	-	-	-	(55,095)	-
Depreciation	(10,631)	(2,294)	(13,000)	(30,602)	-	(5,412)	(2,062)	-	(64,001)
Exchange realignment	21,424	949	13,107	40,179	-	2,191	1,687	5,229	84,766
Closing net book amount	303,247	9,036	153,941	674,056	-	30,086	15,945	117,742	1,304,053
At 31 March 2008									
Cost	323,752	13,628	184,314	728,563	-	38,332	18,007	117,742	1,424,338
Accumulated depreciation	(20,505)	(4,592)	(30,373)	(54,507)	-	(8,246)	(2,062)	-	(120,285)
Net book amount	303,247	9,036	153,941	674,056	-	30,086	15,945	117,742	1,304,053

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Furniture, equipment and motor vehicles HK\$'000
At 1 April 2006	
Cost	1,117
Accumulated depreciation	(37)
Net book amount	<u>1,080</u>
Year ended 31 March 2007	
Opening net book amount	1,080
Additions	1,677
Disposals	(951)
Depreciation	(195)
Closing net book amount	<u>1,611</u>
At 31 March 2007 and 1 April 2007	
Cost	1,734
Accumulated depreciation	(123)
Net book amount	<u>1,611</u>
Year ended 31 March 2008	
Opening net book amount	1,611
Additions	643
Disposals	(2)
Depreciation	(262)
Exchange realignment	153
Closing net book amount	<u>2,143</u>
At 31 March 2008	
Cost	2,542
Accumulated depreciation	(399)
Net book amount	<u>2,143</u>

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

- (a) The Group's leasehold buildings included above are held under medium term leases in the PRC.
- (b) As at 31 March 2008, the Group's property, plant and equipment at the net book amount of HK\$106,602,000 were pledged to secure banking facilities granted to the Group (note 34).
- (c) Included in construction in progress is net interest capitalised of HK\$5,189,000 (2007: HK\$ 3,833,000) at the capitalisation rate of 7.1% (2007: 6.5%).

15. PREPAID LAND LEASE PAYMENTS – GROUP

	2008 HK\$'000	2007 HK\$'000
At beginning of the year		
Cost	106,181	3,964
Accumulated amortisation	(867)	(89)
	105,314	3,875
Net book amount	105,314	3,875
For the year ended		
Opening net book value	105,314	3,875
Acquisition of subsidiaries	2,779	2,924
Additions	79,047	99,134
Disposals	(2,506)	–
Disposal of subsidiaries	(1,054)	–
Amortisation	(3,317)	(774)
Exchange realignment	11,889	155
	192,152	105,314
Net book amount	192,152	105,314
At end of the year		
Cost	196,463	106,181
Accumulated amortisation	(4,311)	(867)
	192,152	105,314
Net book amount	192,152	105,314

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For the year ended 31 March 2008

15. PREPAID LAND LEASE PAYMENTS – GROUP (Continued)

The Group's prepaid land lease payments represent up-front payments to acquire long term interest in the usage of land situated in the PRC, which are held under medium term leases.

As at 31 March 2008, the prepaid land lease payments include certain land with a net book amount of HK\$82,257,000 (2007: HK\$19,427,000) for which the Group is still in the process of obtaining the land use rights certificates. In the opinion of the directors of the Company, the Group has obtained the right to use these land.

As at 31 March 2008, the Group's interests in land use rights at the net book amount of HK\$3,532,000 (2007: HK\$13,764,000) were pledged to secure banking facilities granted to the Group (note 34).

16. INVESTMENT PROPERTIES – GROUP

	2008 HK\$'000	2007 HK\$'000
Carrying amount at beginning of the year	139,000	–
Additions	17,991	98,110
Valuation surplus	104,987	40,890
Exchange realignment	15,000	–
Carrying amount at 31 March	276,978	139,000

Investment properties represented two pieces of land located in the PRC held for long-term capital appreciation. The land use right of a piece of land will expire in year 2047 for commercial use and the land use right of another piece of land will expire from year 2046 to 2076 for commercial and residential use respectively.

Investment properties were revalued on 31 March 2008 by CB Richard Ellis Limited, an independent firm of professional valuers at HK\$276,978,000 (2007: HK\$139,000,000) on an open market, existing use basis and on the assumption that the Group sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the value.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2008 HK\$'000	2007 HK\$'000
Unlisted shares, at cost	899,526	559,515
Less: Provision for impairment	–	–
	899,526	559,515
Due from subsidiaries	598,187	189,641
Less: Provision for impairment	(24,212)	(24,212)
Due within one year included under current assets	573,975	165,429

Details of the principal subsidiaries at 31 March 2008 are as follows:

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Hong Kong Water Affairs Investments Limited	Hong Kong	1 share of HK\$1 each	–	100%	Investment holding
China Water Group (HK) Limited (formerly known as China Water Group Limited)	BVI/Hong Kong	1 share of US\$1 each	100%	–	Investment holding
Sharp Profit Investments Limited (ii)	BVI/Hong Kong	1 share of US\$1 each	100%	–	Investment holding
Good Outlook Investments Limited (ii)	BVI/Hong Kong	1 share of US\$1 each	100%	–	Investment holding
Oceanup Investments Limited (ii)	BVI/Hong Kong	1 share of US\$1 each	100%	–	Investment holding
China Water Supply Group Limited	Hong Kong	2 shares of HK\$1 each	–	100%	Investment holding

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17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2008 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
China Hydropower Development Limited	BVI/Hong Kong	1 share of US\$1 each	–	100%	Investment holding
荊州水務集團有限公司 *	PRC	Registered capital of US\$61,253,100 (2007: US\$29,500,000)	51%	–	Water supply
荊州水務鼎鑫源工程有限公司 (formerly known as 荊州市 鼎鑫源水務工程有限公司) ^	PRC	Registered capital of RMB1,200,000	–	51% (2007: 25%)	Water supply infrastructure
荊州水務泉鑫物資貿易有限公司 (formerly known as 荊州市 泉鑫物資貿易有限公司)^	PRC	Registered capital of RMB800,000	–	51% (2007: 23%)	Trading of water supply materials
荊州中水環保有限公司 #	PRC	Registered capital of US\$8,200,000	100%	–	Sewage treatment
江陵銀龍水務有限公司 # (ii)	PRC	Registered capital of USD2,580,000	100%	–	Water supply
重慶市永川區僑立水務 有限公司 #	PRC	Registered capital of RMB42,200,000	100%	–	Water supply
重慶僑立市政設施工程 有限公司 *	PRC	Registered capital of RMB5,000,000	10%	90%	Water supply infrastructure
江西萬年銀龍水務 有限責任公司 *	PRC	Registered capital of USD35,000,000 (2007: US\$30,000,000)	100%	–	Water supply
江西省銀龍大酒店有限公司 *	PRC	Registered capital of RMB1,000,000	65%	35%	Hotel operation

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2008 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
鉛山縣銀龍水務有限公司 # (ii)	PRC	Registered capital of RMB18,000,000	–	100%	Water supply
上海倍臣水務發展有限公司 (formerly known as 嵊州市 水電開發有限公司) ^	PRC	Registered capital of RMB90,000,000	–	100%	Investment holding
江河水務有限公司 ^ (i)	PRC	Registered capital of RMB225,000,000	–	99%	Investment holding
北京江河旋龍水泵 技術有限公司 ^ (i)	PRC	Registered capital of RMB3,000,000	–	60%	Water pump technology development
海南興水城鄉供水有限公司 ^ (i)	PRC	Registered capital of RMB15,830,000	–	56%	Water supply
新余水務集團有限公司 *	PRC	Registered capital of RMB100,000,000	60%	–	Water supply
新余市建和混凝土 有限責任公司 *	PRC	Registered capital of RMB10,000,000	26%	29%	Manufacture and sale of concrete products
新余市渝泉水業 有限責任公司 ^	PRC	Registered capital of RMB50,000,000	–	60%	Water supply infrastructure
新余白雲源水有限責任公司 ^	PRC	Registered capital of RMB1,000,000	–	60%	Water supply
新余仙女湖新城開發 有限公司 * (iii)	PRC	Registered capital of RMB100,000,000	30%	18%	Development and infrastructure of sightseeing area

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17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2008 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
新余水務置業有限責任公司 *	PRC	Registered capital of RMB20,000,000	–	54%	Property development and investment
新余市仙女湖游船 有限責任公司 ^ (i) (iii)	PRC	Registered capital of RMB5,500,000	–	48%	Sightseeing business
高安水務集團有限公司 * (ii)	PRC	Registered capital of RMB50,000,000	60%	–	Water supply
分宜銀龍水務有限公司 ^ (ii)	PRC	Registered capital of RMB16,000,000	–	60%	Water supply
分宜中水環保有限公司 ^ (ii)	PRC	Registered capital of RMB6,000,000	–	60%	Sewage treatment
廣東仁化銀龍供水有限公司 *	PRC	Registered capital of RMB17,260,000	–	73%	Water supply
河南銀龍供水有限公司 #	PRC	Registered capital of RMB150,000,000 (2007: RMB80,000,000)	–	100%	Investment holding
河南銀龍(扶溝)供水有限公司 #	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure
河南銀龍(西華)供水有限公司 *	PRC	Registered capital of RMB14,000,000	–	55%	Water supply and water supply infrastructure
周口銀龍水務有限公司 *	PRC	Registered capital of RMB50,000,000	–	70%	Water supply and water supply infrastructure
河南鹿邑銀龍供水有限公司 #	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2008 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
江門銀龍水務有限公司 # (ii)	PRC	Registered capital of RMB100,000,000	100%	–	Investment holding
江門市銀龍消防工程有限公司^ (i)(iii)	PRC	Registered capital of RMB3,000,000	–	50%	Fire work installation
廣東新會水務有限公司* (i) (iii)	PRC	Registered capital of RMB150,000,000	40%	10%	Water supply and water supply infrastructure
惠州中水水務發展有限公司 * (ii)	PRC	Registered capital of RMB100,000,000	70%	–	Water supply and water supply infrastructure

* registered as Sino-foreign joint ventures under the PRC law.

registered as wholly-foreign owned enterprises under the PRC law.

^ registered as a limited liability company under the PRC

(i) acquired during the year ended 31 March 2008

(ii) incorporated/established/injected during the year ended 31 March 2008

(iii) accounted for as subsidiaries of the Group because the directors are of the opinion that the Group has the power to cast the majority of votes at meetings of the board of directors in respect of financial and operating policies of these entities.

The financial statements of the Company's subsidiaries are audited by Grant Thornton for statutory purpose or Group consolidation purpose.

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.

As at 31 March 2008 and 2007 the amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand. Accordingly, the amounts are classified as current assets and current liabilities respectively.

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18. INTERESTS IN ASSOCIATES – GROUP

	2008 HK\$'000	2007 HK\$'000
Share of net assets	<u>99,088</u>	<u>975</u>

Particulars of the associate as at 31 March 2008 are as follows:

Name	Place of establishment	Particulars of registered capital	Held by subsidiary	Group's effective interest	Principal activities
江河港武水務 (常州) 有限公司	PRC	Registered capital of RMB237,000,000	40%	approximately 40%	Water supply

Particulars of the associates as at 31 March 2007 are as follows:

Name	Place of establishment	Particulars of registered capital	Held by subsidiary	Group's effective interest	Principal activities
荊州水務鼎鑫源 工程有限公司*	PRC	Registered capital of RMB1,200,000	49%	25%	Water supply infrastructure
荊州水務泉鑫物資 貿易有限公司*	PRC	Registered capital of RMB800,000	46%	23%	Trading of water supply material

* Additional interests were acquired by the Group and were accounted for as subsidiaries during the year ended 31 March 2008 (notes 42(e) and 42(f)).

Summary of financial information of the Group's associates, in aggregate, as extracted from their financial statements is as follows:

	2008 HK\$'000	2007 HK\$'000
Assets	<u>721,809</u>	<u>15,226</u>
Liabilities	<u>472,166</u>	<u>13,163</u>
Revenue	<u>98,582</u>	<u>4,869</u>
Profit	<u>42,855</u>	<u>19</u>

19. OTHER FINANCIAL ASSETS

(a) Available-for-sale financial assets

	Group	
	2008 HK\$'000	2007 HK\$'000
Listed equity investments in Hong Kong, at fair value (note)	78,461	–
Unlisted equity investments outside Hong Kong, at cost	281,427	41,506
	<u>359,888</u>	<u>41,506</u>

Note: The fair value of these available-for-sale financial assets are determined by the directors of the Company with reference to the valuation performed by CB Richard Ellis Limited, an independent firm of professional valuers. The market value of these available-for-sale financial assets at the date of approval of these financial statements was approximately HK\$44,835,000.

These financial assets are subject to financial risk exposure in terms of price risk.

Particulars of the major investment in equity securities as at 31 March 2008 disclosed pursuant to section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment	Principal activities	Particulars of registered capital	Percentage of interest held
China Botanic Development Holdings Ltd. *	Cayman Islands	Production and distribution of snack food and convenience frozen food products and cultivation of seabuckthorn seedlings, manufacturing, sales, research and development of seabuckthorn related health products	691,937,500 shares of HK\$0.01 each	19.22%
上海自來水投資建設有限公司 （“上海自來水”）	PRC	Water supply infrastructure	Registered capital of RMB 70,000,000	28.57%
江河農村電氣化發展有限公司 （“江河農電”）	PRC	Hydropower plant operation	Registered capital of RMB 399,392,000	45%

* Listed on the Stock Exchange and was pledged to secure the term facility agreement as detailed in note 34(a)(iii).

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19. OTHER FINANCIAL ASSETS (Continued)

(a) Available-for-sale financial assets (Continued)

Notes:

- (i) The above table lists the major investments of the Group which, in the opinion of the directors, principally affected results for the year or formed a substantial portion of the net assets of the Group. To give details of other investments would, in the opinion of the directors, result in particulars of excessive length.
- (ii) The unlisted available-for-sale financial assets are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.
- (iii) The investments in 上海自來水 and 江河農電 are not equity accounted for under HKAS 28 "Investments in Associates". This is because the directors are of the opinion that the Group has no participation in the financial and operating policy-making process.

(b) Financial assets at fair value through profit or loss

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Listed equity investments, at market value:				
– Hong Kong	62,689	5,835	1,561	5,835
– Elsewhere (note)	233,625	223,140	–	–
	<u>296,314</u>	<u>228,975</u>	<u>1,561</u>	<u>5,835</u>

The above equity investments at 31 March 2008 were classified as held for trading. The market value of the above equity investments at the date of approval of these financial statements was approximately HK\$187,347,000.

Note:

The Group has undertaken the following lockup periods in respect of the disposal of its interests in Qian Jiang Water Resources Development Co., Limited ("Qian Jiang") in carrying amount of HK\$232,858,000 (2007: HK\$223,140,000), which is listed on the Shanghai Stock Exchange of the PRC (the "SSE"), through the SSE (the "Disposal"):

- (1) no Disposal for a period of twelve months commencing from 27 December 2006 (the "First Lockup Period"); and
- (2) Disposal not exceeding 5% of the total issued shares of Qian Jiang for a period of twelve months after the First Lockup Period and not exceeding 10% of the total issued shares of Qian Jiang for a period of twenty-four months after the First Lockup Period.

Except for the matter as disclosed above, the Group's interests in Qian Jiang are freely transferable following the initial recognition.

20. INVESTMENT IN DEBT SECURITIES

During the year ended 31 March 2008, the Group acquired the convertible bonds issued by CBDH with a principal amount of HK\$180,050,000 (the "China Botanic Convertible Bonds") as part of the consideration for the disposal of 100% equity interest in CEWHL (notes 10 and 43). The China Botanic Convertible Bonds due on 13 November 2017 is convertible into fully paid ordinary shares of CBDH with a par value of HK\$0.01 each at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. The Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the China Botanic Convertible Bonds does not trigger a mandatory offer obligation under The Hong Kong Code on Takeovers and Mergers. The China Botanic Convertible Bonds can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date. Further details of which have been set out in the Company's announcement dated 3 July 2007.

The China Botanic Convertible Bonds are separated into two components: the debt element and the conversion options element (note 30). The Group has classified the debt element of the China Botanic Convertible Bonds as available-for-sale investment and the conversion options element of the China Botanic Convertible Bonds as derivative financial instruments, which have been presented as the "Investment in debt securities" and "Conversion options embedded in convertible bonds" in the balance sheet respectively. The fair values of the debt element and the conversion options element are determined by the directors of the Company with reference to the valuation performed by CB Richard Ellis Limited, an independent firm of professional valuers.

The carrying value of the debt element and conversion options element of the China Botanic Convertible Bonds are as follows:

	Debt element	Conversion options element	Total
	HK\$'000	HK\$'000	HK\$'000
Net carrying amounts on initial recognition	116,551	122,669	239,220
Change in fair value			
– charged to income statement	–	(52,845)	(52,845)
– charged to equity	15,863	–	15,863
Net carrying amounts at 31 March 2008	132,414	69,824	202,238

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21. GOODWILL – GROUP

The amount of the goodwill capitalised as an asset recognised in the consolidated balance sheet, arising from business combinations, is as follows:

	2008 HK\$'000	2007 HK\$'000
At beginning of the year		
Gross carrying amount	80,350	–
Accumulated impairment	–	–
Net carrying amount	<u>80,350</u>	<u>–</u>
For the year ended		
Net carrying amount at beginning of year	80,350	–
Acquisition of subsidiaries (notes 42(a), 42(d), 42(e), 42(f) and 42(h))	14,751	80,350
Exchange realignment	8,533	–
Net carrying amount at end of year	<u><u>103,634</u></u>	<u><u>80,350</u></u>
At 31 March		
Gross carrying amount	103,634	80,350
Accumulated impairment	–	–
Net carrying amount	<u><u>103,634</u></u>	<u><u>80,350</u></u>

The recoverable amounts for the cash-generating units as detailed in notes 42(a), 42(d), 42(e), 42(f) and 42(h) were determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 3% (2007: 8%) and discount rate of 12% (2007: 11%) estimated by the management with reference to the valuation performed by CB Richard Ellis Limited, an independent firm of professional valuers.

The key assumptions for the Group have been determined by the Group's management based on past performance and its expectations for the industry development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Apart from the considerations described in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

22. OTHER INTANGIBLE ASSETS – GROUP

	Sewage treatment concession rights (note a)		Water supply concession rights (note b)		Consolidated	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At beginning of the year						
Cost	130,000	–	–	–	130,000	–
Accumulated amortisation	–	–	–	–	–	–
Net book amount	130,000	–	–	–	130,000	–
For the year ended						
Opening net book value	130,000	–	–	–	130,000	–
Additions	–	130,000	7,442	–	7,442	130,000
Amortisation	(5,562)	–	(200)	–	(5,762)	–
Exchange realignment	13,829	–	(7)	–	13,822	–
Net book amount	138,267	130,000	7,235	–	145,502	130,000
At 31 March						
Cost	144,028	130,000	7,442	–	151,470	130,000
Accumulated amortisation	(5,761)	–	(207)	–	(5,968)	–
Net book amount	138,267	130,000	7,235	–	145,502	130,000

Notes:

- (a) Pursuant to several agreements between a wholly-owned subsidiary of the Company, namely 荊州中水環保有限公司 (the "Project Company") and a relevant authority in the PRC, namely 荊州市建設委員會 during the year ended 31 March 2007, the Project Company obtained the right to operate a sewage treatment plant located at Jingzhou City of Hubei Province in the PRC for a period of 25 years at an aggregate consideration of RMB130 million. The Project Company is entitled to use all the property, plant and equipment of the sewage treatment plant and to charge for the sewage treatment services at the initial tariff of RMB0.7 per cubic meter.

As at 31 March 2008 and 2007, the sewage treatment concession rights were pledged at a maximum period of 20 years as security for banking facilities granted to the Group (note 34).

- (b) Pursuant to a concession agreement between a wholly-owned subsidiary of the Company, namely 鉛山縣銀龍水務有限公司 ("鉛山縣銀龍") and a relevant authority in the PRC, namely 鉛山縣人民政府 during the year ended 31 March 2008, 鉛山縣銀龍 obtained the right to operate a water supply plant located at Yanshan City of Jiangxi Province in the PRC for a period of 30 years commencing from 1 June 2007 at an aggregate consideration of RMB6.65 million. 鉛山縣銀龍 is entitled to use all the property, plant and equipment of the water supply plant.

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23. DEPOSITS

	Notes	Group	
		2008 HK\$'000	2007 HK\$'000
Deposits for acquisition of equity instruments *	(i), (ii)	289,031	106,368
Other deposits	(iii)	75,137	25,443
		364,168	131,811

* HK\$141,444,000 was held directly by the Company as at 31 March 2008 (2007: HK\$40,000,000).

Notes:

- (i) As at 31 March 2008, the deposits for acquisition of equity instruments amounted to RMB289,031,000 mainly comprised the followings:
- (a) The amount of HK\$141,444,000 represented the deposits paid by the Company in relation to the acquisition of 19.375% equity interest in China Water Industry Investment Corporation which is a company established in the PRC and principally engaged in the investment, operation, management and related value added services in raw water supply, exploitation, cross-region water transfer, urban water supply and waste water treatment as well as desalination of brackish water in the PRC. Further details of which has been set out in the Company's announcement dated 30 October 2007.
- (b) The amount of HK\$147,450,000 represented the deposits paid by the Group in relation to the acquisition of 70% equity interest in each of 惠州大亞灣銀龍自來水有限公司, 惠州大亞灣清源環保有限公司 and 惠州大亞灣溢源淨水有限公司 (collectively referred to as "Huizhou Daya Bay Companies") which are the companies established in the PRC and principally engaged in water supply, water supply infrastructure business and sewage treatment in the PRC. Upon completion of this acquisition, the Group would have effective equity interest of 49% in each of Huizhou Daya Bay Companies. As the vendor, namely 惠州市投資管理有限公司, is a minority equity holder of a subsidiary of the Company, the acquisition is a related party transaction and connected transaction as defined in the Listing Rules. Further details of which has been set out in the Company's announcement dated 28 March 2008.
- (c) The amount of HK\$137,000 represented the deposits paid by the Group in relation to the acquisition of 49% equity interest in 梧州粵海江河水務有限公司 ("梧州粵海江河水務") which is a company established in the PRC and principally engaged in water supply and water supply infrastructure business in the PRC. Upon completion of this acquisition, the Group would have effective interest of approximately 49% in 梧州粵海江河水務.

23. DEPOSITS (Continued)*Notes: (Continued)*

- (ii) As at 31 March 2007, the deposits for acquisition of equity instruments amounted to RMB106,368,000 mainly comprised the followings:
- (a) The amount of HK\$40,000,000 represented the deposits paid by the Company in relation to the acquisition of 39.94% equity interest in 廣東新會水務有限公司 (“廣東新會水務”) which is a company incorporated in the PRC and principally engaged in water supply and water supply infrastructure business in Xinhui District, Jiangmen City, the PRC (note 42(b)).
 - (b) The amount of HK\$20,000,000 represented the deposit paid by the Group for the investment in 江河農電 (note 19(a)).
 - (c) The amount of HK\$20,000,000 represented the deposit paid by the Group in relation to the acquisition of 28.57% equity interest in 上海自來水 (note 19(a)) which is a company incorporated in the PRC and principally engaged in the provision of management and engineering services for water supply and sewage treatment construction projects and related technical services principally in Shanghai City, the PRC.
 - (d) The amount of HK\$5,100,000 represented the deposit paid by the Group for the establishment of an equity joint venture in Shaanxi, which will be principally engaged in the manufacture of the sea buckthorn's products (note 43(a)).
 - (e) The amount of HK\$21,268,000 represented the deposit paid by the Group in relation to the acquisition of entire equity interest in 新余市仙女湖游船有限責任公司 (“仙女湖游船”) which is a company incorporated in the PRC and principally engaged in the provision of touring and catering services in the sightseeing area in Xinyu City, the PRC (note 42(c)).
- (iii) As at 31 March 2008, the amount consisted of deposits of HK\$48,495,000 (2007: HK\$25,443,000) paid for acquisition of land use rights for the Group's business expansion and deposits of HK\$26,642,000 (2007: Nil) paid for acquisition of property, plant and equipment.

24. PROPERTIES UNDER DEVELOPMENT – GROUP

	2008 HK\$'000	2007 HK\$'000
At Cost		
At beginning of the year	7,650	–
Additions	13,271	7,650
Exchange realignment	826	–
At 31 March	21,747	7,650

The Group's properties under development are located in the PRC on leasehold land with lease terms expiring from year 2046 to 2076.

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25. BIOLOGICAL ASSETS – GROUP

(a) A reconciliation of the carrying amounts of biological assets is as follows:

	2008 HK\$'000	2007 HK\$'000
Carrying amount at beginning of year	–	–
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	–	23,241
Decrease due to sales	–	(23,241)
Carrying amount at 31 March	–	–

The Group's biological assets during the year ended 31 March 2007 represented seedling of sea buckthorn which are primarily cultivated and held for sale.

(b) Financial risk management strategies relating to biological assets:

The Group is exposed to financial risks arising from changes in prices of biological assets which are determined by constantly changing market forces of supply and demand and other factors. The other factors include governmental and environmental regulations, weather conditions and diseases relating to the biological assets. The Group has little or no control over these conditions and factors.

The Group has not entered into derivatives or other contracts to manage the risk of fluctuation in the prices of biological assets. The Group reviews its exposure for the prices of biological assets in considering the need for active financial risk management.

The Group is subject to risks relating to its ability to maintain the health of biological assets. Health problems of biological assets could adversely impact production and customer satisfaction. The Group monitors the health status of its biological assets on a regular basis and has procedures in place to reduce potential exposure to diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by disease epidemics.

26. INVENTORIES – GROUP

	2008 HK\$'000	2007 HK\$'000
Raw materials and supplies	35,082	13,746
Work-in-progress	3,534	76
Finished goods	980	4,295
	39,596	18,117

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27. TRADE RECEIVABLES – GROUP

	2008 HK\$'000	2007 HK\$'000
0 to 90 days	319,981	12,379
91 to 180 days	20,132	5,306
Over 180 days	15,769	5,791
	355,882	23,476

The Group has a policy of allowing trade customers with credit normally within 90 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transaction. Overdue balances are reviewed regularly by the Group's management.

As at the balance sheet date, the Group's trade receivables included HK\$237,269,000 (2007: Nil) relating to the trade receivables of construction contracts which would be recovered after more than one year from the balance sheet date.

As at the balance sheet dates, the Group had no significant balances of trade receivables that were past due but not impaired. The directors of the Company are of the opinion that no further allowance for impairment of trade receivables is necessary as there was no recent history of default in respect of these trade debtors.

28. CONSTRUCTION CONTRACTS – GROUP

	2008 HK\$'000	2007 HK\$'000
Contract cost incurred plus recognised profits less recognised losses	281,918	–
Less: Progress billings	(302,586)	–
	(20,668)	–
Representing:		
Amounts due to customers for contract work	(20,668)	–
Contract revenue recognised as revenue in the year	281,918	–

In respect of construction contracts in progress at the balance sheet date, the amount of receivables from customers, included in "Trade receivables", is HK\$237,269,000 (2007: Nil). In addition, performance deposits paid to the customers, included in "Prepayments, deposits and other receivables", is HK\$23,266,000 (2007: HK\$ 23,000,000).

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29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Prepayments	29,660	6,115	12,453	718
Deposits	24,728	33,883	–	148
Other receivables	134,271	51,616	9,333	5,257
	188,659	91,614	21,786	6,123

30. CONVERSION OPTIONS EMBEDDED IN CONVERTIBLE BONDS – GROUP

	2008 HK\$'000	2007 HK\$'000
Unlisted conversion options embedded in convertible bonds, at fair value	69,824	–

As at 31 March 2008, convertible options embedded in convertible bonds represent the conversion options element of the China Botanic Convertible Bonds held by the Group (note 20).

The fair value of the conversion options element of the China Botanic Convertible Bonds was calculated using the Binominal model with the major inputs used in the model as follows:

	31 March 2008	3 November 2007
Stock price	HK\$0.63	HK\$1.30
Expected volatility	76.89%	68.99%
Risk free rate	2.584%	3.385%
Expected dividend yield	Nil	Nil

Any changes in the major inputs into the model will result in changes in the fair value of the conversion options element of the China Botanic Convertible Bonds. The change in the fair value of the conversion options element of the China Botanic Convertible Bonds during the year ended 31 March 2008 result in a fair value loss of HK\$52,845,000, which has been included in the "Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)" in the income statement for the year ended 31 March 2008.

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31. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Cash at bank and in hand	304,106	256,589	11,943	5,330
Short-term bank deposits	154,000	263,692	154,000	263,692
	458,106	520,281	165,943	269,022
Less: Pledged deposit	(35,333)	–	–	–
	422,773	520,281	165,943	269,022

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates, ranging from 1.0% to 1.2% per annum (2007: 3.7% to 4.1% per annum).

At as 31 March 2008, the Group had cash and bank balances denominated in RMB amounting to approximately HK\$285,073,000 (2007: approximately HK\$229,095,000), which were deposited with banks in the PRC and held in hand. The RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

32. TRADE PAYABLES – GROUP

The credit terms of trade payables vary according to the terms agreed with different suppliers. The ageing analysis of the Group's trade payables as at the balance sheet is as follows:

	2008 HK\$'000	2007 HK\$'000
0 to 90 days	39,230	19,196
91 to 180 days	121,006	1,746
Over 180 days	4,556	9,961
	164,792	30,903

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33. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Accrued liabilities	38,473	59,379	518	842
Deposits received	47,106	33,483	–	–
Other payables	255,386	104,979	10,172	25,208
	340,965	197,841	10,690	26,050

34. BORROWINGS – GROUP

	Notes	Original currency	2008 HK\$'000	2007 HK\$'000
Current				
Bank loans – unsecured	a(i)	RMB	3,601	–
Bank loans – secured	a(i)	RMB	83,813	67,660
Other loans – unsecured	a(i)	RMB	28,394	5,888
Other loans – secured	a(i)	RMB	11,833	10,000
Government loans – unsecured	a(ii)	RMB	54,251	45,687
			181,892	129,235
Non-current				
Bank loans – secured	a(i)	RMB	316,417	236,420
Other loans – unsecured	a(i)	RMB	2,393	2,160
Other loans – secured	a(i)	RMB	11,079	13,450
Government loans – unsecured	a(ii)	RMB	51,528	47,390
			381,417	299,420
			563,309	428,655

For the year ended 31 March 2008

34. BORROWINGS – GROUP (Continued)

Notes (a):

	2008 HK\$'000	2007 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	87,414	67,660
In the second year	67,815	41,800
In the third to fifth years, inclusive	210,739	154,620
Beyond five years	37,863	40,000
	<u>403,831</u>	<u>304,080</u>
Other loans repayable:		
Within one year or on demand	40,227	15,888
In the second year	6,160	3,960
In the third to fifth years, inclusive	7,204	10,650
Beyond five years	108	1,000
	<u>53,699</u>	<u>31,498</u>
Government loans repayable:		
Within one year or on demand	54,251	45,687
In the second year	7,638	5,978
In the third to fifth years, inclusive	17,604	16,500
Beyond five years	26,286	24,912
	<u>105,779</u>	<u>93,077</u>

- (i) The Group's bank loans and other loans at 31 March 2008 were secured by:
- (a) pledge of water revenue of certain subsidiaries;
 - (b) guarantees by You Tao and Lin Hua Dong (being senior management of certain subsidiaries), 江西省水利水電開發總公司, 新余市財政局 and 韻關市丹霞山旅遊投資經營有限公司. The Group has not recognised the financial impact in respect of these guarantees as their fair value cannot be reliably measured and no transaction price was recorded;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2008 was HK\$106,602,000 (2007: HK\$82,540,000);
 - (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2008 was HK\$3,532,000 (2007: HK\$13,764,000);

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34. BORROWINGS – GROUP (Continued)

Notes (a): (Continued)

- (i) The Group's bank loans and other loans at 31 March 2008 were secured by: (Continued)
 - (e) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2008 was HK\$138,267,000 (2007: HK\$130,000,000); and
 - (f) charges over the Group's bank balance in amount of HK\$35,333,000 as at 31 March 2008 (2007: Nil).

Except for the secured bank loans with aggregate carrying amount of HK\$270,383,000 (2007: HK\$40,280,000) which are interest-bearing at floating rates, all other bank loans of the Group are at fixed rates. The interest rates of the Group's bank loans ranged from 6.4% to 8.7% (2007: 6.4% to 7.8%) per annum.

Except for the other loans with aggregate carrying amount of HK\$3,710,000 (2007: HK\$3,159,000) which are non-interest bearing, the interest rates of the Group's other loans ranged from 2.8% to 11.0% (2007: 2.4% to 8.6%) per annum.

- (ii) The government loans comprise loans of HK\$105,779,000 (2007: HK\$93,077,000), which bear interests ranging from 2.3% to 8.0% (2007: 2.3% to 12%) per annum.
- (iii) On 18 December 2007, the Company entered into a term facility agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH (“DEG”) and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”) for a loan facility of up to US\$36 million (the “Loan Agreement”). In connection with the Loan Agreement, the Company shall issue to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company at the subscription price of HK\$7 during the subscription period from 18 December 2008 to 18 December 2011 (both days inclusive) up to USD10.8 million (the “Warrants”). The subscription monies for the Warrants shall be satisfied by way of set off of any outstanding amount under the Loan Agreement. The loan facility under the Loan Agreement is secured by (i) shares of certain subsidiaries of the Group; (ii) the Group's equity investment in CBDH; and (iii) a bank account of the Group (the “Charges”). The loan facility was expired on 15 June 2008. The Group has not utilised the loan facility and has not issued the Warrants. In the opinion of the directors of the Company and the Group's legal advisors, the Company is obliged to issue the Warrants and the Charges remain valid and binding as at the date of this report.

35. BALANCES WITH MINORITY EQUITY HOLDERS OF SUBSIDIARIES, A DIRECTOR, ASSOCIATES AND FORMER SUBSIDIARIES – GROUP

The balances are unsecured, interest-free and repayable on demand.

During the year ended 31 March 2008, the Group made an impairment provision amounted to HK\$6,457,000 (2007: HK\$5,015,000) for the amounts due from former subsidiaries.

36. DEFERRED GOVERNMENT GRANTS – GROUP

	2008 HK\$'000	2007 HK\$'000
At beginning of the year	11,856	–
Transfer from the Government Interest Free Loan	–	6,923
Additions during the year	2,366	5,277
Amortisation during the year	(950)	(344)
Exchange realignment	1,246	–
At 31 March	14,518	11,856

The Group's deferred government grants mainly related to the Group's acquisition of property, plant and equipment.

37. CONVERTIBLE BONDS – GROUP AND COMPANY

The carrying values of the liability component, equity component and derivative component of the convertible bonds are as follows:

Liability component

	2011 Convertible Bonds (note a) HK\$'000	2012 Convertible Bonds (note b) HK\$'000	Total HK\$'000
At 1 April 2006	–	–	–
Net carrying amounts on initial recognition	275,608	–	275,608
Interest expenses	13,422	–	13,422
Interest on convertible bonds paid	(2,025)	–	(2,025)
Arising from exercise of conversion rights	(222,105)	–	(222,105)
Net carrying amounts at 31 March 2007 and at 1 April 2007	64,900	–	64,900
Net carrying amounts on initial recognition	–	556,554	556,554
Interest expenses	1,138	33,696	34,834
Interest on convertible bonds paid	(478)	–	(478)
Arising from exercise of conversion rights	(65,560)	–	(65,560)
Net carrying amounts at 31 March 2008	–	590,250	590,250

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For the year ended 31 March 2008

37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Equity component

	2011 Convertible Bonds (note a) HK\$'000	2012 Convertible Bonds (note b) HK\$'000	Total HK\$'000
At 1 April 2006	–	–	–
Net carrying amounts on initial recognition	10,413	–	10,413
Arising from exercise of conversion rights	(8,087)	–	(8,087)
Net carrying amounts at 31 March 2007 and at 1 April 2007	2,326	–	2,326
Arising from exercise of conversion rights	(2,326)	–	(2,326)
Net carrying amounts at 31 March 2008	–	–	–
Derivative component			
– classified as current liabilities			
Net carrying amounts on initial recognition	–	81,388	81,388
Change in fair value of derivative financial instruments	–	13,247	13,247
Net carrying amounts at 31 March 2008	–	94,635	94,635

Notes:

- (a) Pursuant to an announcement (the "2006 CB Announcement") dated 26 June 2006 and information memorandum (the "2006 Information Memorandum") of the Company dated 30 June 2006, the Company issued HK\$260,000,000 2.5 per cent convertible bonds (the "2011 Convertible Bonds") at 100% of principal amount to DBS Bank Limited ("DBS") on 30 June 2006 (the "2006 CB Issue"). The 2011 Convertible Bonds were issued in denominations of HK\$100,000 or integral multiples thereof. The Company granted DBS an offer size adjustment option to subscribe for up to an additional HK\$40,000,000 in principal amount, and such option was exercised by DBS and additional HK\$40,000,000 2011 Convertible Bonds were issued on 14 July 2006.

The 2011 Convertible Bonds are convertible at any time on or after 1 August 2006 and up to the close of business on 16 June 2011 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholder, at an initial conversion price of HK\$2 per share. The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2011 Convertible Bonds at 126.4 per cent of its principal amount on 30 June 2011.

Both the Company and the bondholders have redemption options on the 2011 Convertible Bonds pursuant to the 2006 Information Memorandum.

37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Notes: (Continued)

(a) (Continued)

On or after 30 June 2009 and on or prior to 20 June 2011, the Company may redeem all, and not some only, of the 2011 Convertible Bonds at their accreted principal amount together with accrued but unpaid interest, in whole but not in part if on each of not less than 20 consecutive trading days ending not earlier than 14 days prior to the date on which the notice of redemption is given to bondholders, the aggregate value on each trading day shall have been at least 130 per cent of the accreted principal amount in respect of each HK\$100,000 on such trading day.

On 30 June 2009, the bondholders of the 2011 Convertible Bonds will have the right at such holder's option, to require the Company to redeem all or some of the 2011 Convertible Bonds of such holders at 114.74 per cent of their unpaid principal amount together with accrued but unpaid interest.

In the event that the Company's shares cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder's option, to require the Company to redeem all or some of such holder's 2011 Convertible Bonds at their accreted principal amount together with accrued but unpaid interest.

Further details of the terms and conditions of the 2006 CB Issue have been set out in the 2006 CB Announcement and the 2006 Information Memorandum.

The fair value of the liability component of the 2011 Convertible Bonds was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in convertible bond equity reserve.

On 29 December 2006, the Company completed the new issue of 167,212,400 placing shares. Pursuant to the terms of the 2011 Convertible Bonds, the conversion price of the 2011 Convertible Bonds was adjusted accordingly. The new conversion price per share and the number of conversion shares subject to the 2011 Convertible bonds as at 31 March 2007 was 33,838,000 shares exercisable at HK\$1.98 each.

During the year ended 31 March 2007, 2011 Convertible Bonds with an aggregate amount of HK\$233,000,000 were converted into ordinary shares of the Company. Total number of ordinary shares converted was approximately 116,980,000 (note 39).

During the year ended 31 March 2008, 2011 Convertible Bonds at the principal amount of HK\$67,000,000 were converted into ordinary shares of the Company and total number of ordinary shares converted was approximately 33,838,000 (note 39).

Interest expense on the 2011 Convertible Bonds is calculated using the effective interest method by applying the effective interest rate of 8.9 per cent to the adjusted liability component.

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37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Notes: (Continued)

- (b) Pursuant to an announcement (the “2007 CB Announcement”) dated 18 July 2007 and information memorandum (the “2007 Information Memorandum”) of the Company dated 3 August 2007, the Company issued HK\$650,000,000 zero coupon convertible bonds (the “2012 Convertible Bonds”) at 100% of principal amount to DBS on 3 August 2007 (the “2007 CB Issue”). The 2012 Convertible Bonds were issued in denominations of HK\$100,000 or integral multiples thereof.

The 2012 Convertible Bonds are convertible at any time on or after 2 September 2007 and up to the close of business on 20 July 2012 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholder, at an initial conversion price of HK\$7 per share (the “Conversion Price”). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 3 February 2009, the average of the closing prices of the share of the Company on each trading day in the period of 15 consecutive trading days ending on (and including) the day immediately prior to 3 February 2009 (the “Reference Price”) is less than the Conversion Price on such date, the Conversion Price shall be reset to the Reference Price (the “Conversion Price Reset”) provided that the Conversion Price shall not be reduced on 3 February 2009 to below HK\$5.45. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2012 Convertible Bonds at 132.77 per cent of its principal amount on 3 August 2012.

Both the Company and the bondholders have redemption options on the 2012 Convertible Bonds pursuant to the 2007 Information Memorandum.

On or after 3 February 2009 and on or prior to 2 August 2010, the Company may redeem all or some of the 2012 Convertible Bonds at their accreted principal amount, in whole but not in part if on each of not less than 20 consecutive trading days ending not earlier than 14 days prior to the date on which the notice of redemption is given to bondholders, the aggregate value on each trading day shall have been at least 150 per cent of the accreted principal amount in respect of each HK\$100,000 on such trading day.

On or after 3 August 2010 and on or prior to 24 July 2012, the Company may redeem all or some of the 2012 Convertible Bonds at their accreted principal amount, in whole but not in part if on each of not less than 20 consecutive trading days ending not earlier than 14 days prior to the date on which the notice of redemption is given to bondholders, the aggregate value on each trading day shall have been at least 130 per cent of the accreted principal amount in respect of each HK\$100,000 on such trading day.

On 3 August 2010, the bondholders of the 2012 Convertible Bonds will have the right at such holder’s option, to require the Company to redeem all or some of the 2012 Convertible Bonds at 118.538 per cent of their unpaid principal amount as at 3 August 2010.

In the event that the Company’s shares cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder’s option, to require the Company to redeem all or some of such holder’s 2012 Convertible Bonds at their accreted principal amount.

Further details of the terms and conditions of the 2007 CB Issue have been set out in the 2007 CB Announcement and the 2007 Information Memorandum.

The Group determined that the Conversion Price Reset will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company’s shares. In accordance with the requirement of HKAS 32, the bond contract is separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element. The compound derivative component is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the income statement in the period when the change occurs.

37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Notes: (Continued)

(b) (Continued)

The fair value of the derivative component of the 2012 Convertible Bonds was calculated using the Binominal model with the major inputs used in the model as follows:

	31 March 2008	3 August 2007
Stock price	HK\$2.60	HK\$5.01
Expected volatility	57.55%	42.42%
Risk free rate	1.84%	4.37%
Expected life	4.3 years	5 years
Expected dividend yield	Nil	Nil

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the derivative component during the year ended 31 March 2008 results in a fair value gain of HK\$13,247,000, which has been included in the "Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)" in the income statement for the year ended 31 March 2008.

The initial carrying amount of the liability component is the residual value after deducting the issuance cost of the 2012 Convertible Bonds allocated to the liability component and the fair value of the derivative component as at 3 August 2007, and is subsequently carried at amortised cost. Interest expenses are calculated using the effective interest method by apply the effective interest rate of 9.2% to the adjusted liability component.

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38. DEFERRED TAX LIABILITIES – GROUP

Deferred tax liabilities are calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2007: 33%).

The movement on deferred tax liabilities during the year is as follows:

	Fair value adjustments arising from other financial assets HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2006	–	–	–
Charged to income statement (note 9)	29,451	13,494	42,945
At 31 March 2007 and 1 April 2007	29,451	13,494	42,945
Charged to income statement (note 9)	8,553	65,626	74,179
Attributable to change in tax rates (note 9)	(7,140)	(3,499)	(10,639)
Exchange realignment	3,178	3,680	6,858
At 31 March 2008	34,042	79,301	113,343

39. SHARE CAPITAL

	Number of shares	Par value
	'000	HK\$'000
<hr/>		
Authorised:		
Ordinary shares of HK\$0.01 each at 31 March 2007 and 31 March 2008	20,000,000	200,000
<hr/>		
Issued and fully paid:		
Ordinary shares of HK\$ 0.01 each at 1 April 2006	829,842	8,298
Share options exercised (note a)	75,800	758
Conversion rights of 2011 Convertible Bonds exercised (note b)	116,980	1,170
Placing and subscription of new shares (note c)	167,212	1,672
<hr/>		
Ordinary shares of HK\$ 0.01 each at 31 March 2007	1,189,834	11,898
Share options exercised (note d)	3,270	33
Conversion rights of 2011 Convertible Bonds exercised (note e)	33,838	338
Placing and subscription of new shares (note f)	14,096	141
Repurchased and cancelled (note g)	(1,254)	(12)
<hr/>		
Ordinary shares of HK\$ 0.01 each at 31 March 2008	1,239,784	12,398
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During the years ended 31 March 2008 and 2007, the movements in share capital were as follows:

- (a) During the year ended 31 March 2007, the subscription rights attaching to 17,000,000, 40,000,000, 17,700,000 and 1,100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.41, HK\$0.72, HK\$1.16 and HK\$1.45 per share respectively, resulting in the issue of 75,800,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$57,897,000 (before expenses) (note 40).
- (b) During the year ended 31 March 2007, 116,980,000 ordinary shares of HK\$0.01 each were issued pursuant to the exercise of the conversion rights attaching to the Company's 2011 Convertible Bonds at a conversion price of approximately HK\$2 per share (note 37).
- (c) On 15 and 18 December 2006, the Company and each of the subscribers, which consist of thirteen independent subscribers, entered into a subscription agreement, pursuant to which the subscribers agreed to subscribe and the Company agreed to allot a total of approximately 167,212,000 ordinary shares of the Company at a price of HK\$2.73 per share. On 29 December 2006, the subscription was completed and raised total consideration of approximately HK\$456,490,000 (before expenses).

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39. SHARE CAPITAL (Continued)

- (d) During the year ended 31 March 2008, the subscription rights attaching to 2,570,000, 400,000, and 300,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.41, HK\$1.16 and HK\$1.45 per share respectively, resulting in the issue of 3,270,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$1,953,000 (before expenses) (note 40).
- (e) During the year ended 31 March 2008, 33,838,000 ordinary shares of HK\$0.01 each were issued pursuant to the exercise of the conversion rights attaching to the Company's 2011 Convertible Bonds at a conversion price of approximately HK\$1.98 per share (note 37).
- (f) On 30 March 2007, Asset Full Resources Limited ("AFRL"), a company beneficially owned by Mr. Duan Chuan Liang, a director of the Company, entered into a placing agreement with Credit Suisse (Hong Kong) Limited for the placement of 14,095,940 ordinary shares of the Company owned by AFRL at a price of HK\$3.33 per share. Pursuant to a conditional subscription agreement on the same date, AFRL subscribed for 14,096,000 new ordinary shares of the Company at a price of HK\$3.33 per share. On 12 April 2007, the subscription was completed and raised total consideration of approximately HK\$46,939,000 (before expenses).
- (g) During the year ended 31 March 2008, the Company repurchased a total of 1,254,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$5,285,000. The highest price paid and the lowest price paid was HK\$4.22 and HK\$4.03 respectively. The repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

40. 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 equity holders 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 advance in a general meeting.

40. SHARE OPTION SCHEME (Continued)

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 method of settlement is by delivery of ordinary shares of the Company.

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.

Movement in share options during the year ended 31 March 2008 are as follows:

Name or category of participant	Number of share options					Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2007	Granted during the year	Exercised during the year (note c)	Lapsed during the year	At 31 March 2008			
Directors								
Mr. Duan Chuan Liang	–	50,000,000	–	–	50,000,000	2 April 2007	Period 6	3.60
Mr. Li Ji Sheng	–	1,000,000	–	–	1,000,000	10 August 2007	Period 8	4.58
Mr. Chen Guo Ru	–	500,000	–	–	500,000	10 August 2007	Period 8	4.58
Mr. Zhao Hai Hu	–	800,000	–	–	800,000	10 August 2007	Period 8	4.58
Mr. Zhou Wen Zhi	870,000	–	(870,000)	–	–	3 January 2006	Period 1	0.41
	–	500,000	–	–	500,000	10 August 2007	Period 8	4.58
	870,000	500,000	(870,000)	–	500,000			
Mr. Wu Jiesi	6,000,000	–	–	–	6,000,000	29 March 2006	Period 3	1.45
	–	1,000,000	–	–	1,000,000	10 August 2007	Period 8	4.58
	6,000,000	1,000,000	–	–	7,000,000			

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40. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2008 are as follows (Continued):

Name or category of participant	Number of share options				At 31 March 2008	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2007	Granted during the year	Exercised during the year (note c)	Lapsed during the year				
Other employees								
In aggregate	1,700,000	–	(1,700,000)	–	–	3 January 2006	Period 1	0.41
	2,700,000	–	(400,000)	–	2,300,000	17 March 2006	Period 5	1.16
	1,300,000	–	(300,000)	–	1,000,000	29 March 2006	Period 3	1.45
	–	21,900,000	–	–	21,900,000	30 April 2007	Period 7	4.35
	<u>5,700,000</u>	<u>21,900,000</u>	<u>(2,400,000)</u>	<u>–</u>	<u>25,200,000</u>			
Suppliers/Advisors								
In aggregate	–	9,500,000	–	–	9,500,000	30 April 2007	Period 7	4.35
	<u>12,570,000</u>	<u>85,200,000</u>	<u>(3,270,000)</u>	<u>–</u>	<u>94,500,000</u>			

40. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2007 are as follows:

Name or category of participant	Number of share options				At 31 March 2007	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2006	Granted during the year	Exercised during the year (note c)	Lapsed during the year				
Directors								
Mr. Duan Chuan Liang	1,600,000	–	(1,600,000)	–	–	1 February 2005	Period 2	0.41
	3,700,000	–	(3,700,000)	–	–	3 January 2006	Period 1	0.41
	40,000,000	–	(40,000,000)	–	–	7 February 2006	Period 4	0.72
	<u>45,300,000</u>	<u>–</u>	<u>(45,300,000)</u>	<u>–</u>	<u>–</u>			
Mr. Zhou Wen Zhi	870,000	–	(870,000)	–	–	1 February 2005	Period 2	0.41
	1,000,000	–	(130,000)	–	870,000	3 January 2006	Period 1	0.41
	<u>1,870,000</u>	<u>–</u>	<u>(1,000,000)</u>	<u>–</u>	<u>870,000</u>			
Mr. Wu Jiesi	<u>6,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,000,000</u>	29 March 2006	Period 3	1.45

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40. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2007 are as follows (Continued):

Name or category of participant	Number of share options					Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2006	Granted during the year	Exercised during the year (note c)	Lapsed during the year	At 31 March 2007			
Other employees								
In aggregate	3,900,000	–	(400,000)	(3,500,000)	–	1 February 2005	Period 2	0.41
	12,000,000	–	(10,300,000)	–	1,700,000	3 January 2006	Period 1	0.41
	10,600,000	–	(7,900,000)	–	2,700,000	17 March 2006	Period 5	1.16
	2,400,000	–	(1,100,000)	–	1,300,000	29 March 2006	Period 3	1.45
	<u>28,900,000</u>	<u>–</u>	<u>(19,700,000)</u>	<u>(3,500,000)</u>	<u>5,700,000</u>			
Suppliers/Advisors								
In aggregate	9,800,000	–	(9,800,000)	–	–	17 March 2006	Period 5	1.16
	<u>91,870,000</u>	<u>–</u>	<u>(75,800,000)</u>	<u>(3,500,000)</u>	<u>12,570,000</u>			

Notes:

Period 1	3 February 2006 to 2 January 2008
Period 2	1 August 2005 to 31 January 2007
Period 3	29 March 2006 to 28 March 2011
Period 4	14 March 2006 to 6 February 2011
Period 5	17 March 2006 to 16 March 2011
Period 6	2 April 2007 to 1 April 2009
Period 7	30 April 2007 to 29 April 2009
Period 8	10 August 2007 to 9 August 2009

40. SHARE OPTION SCHEME (Continued)

Notes (Continued):

- (a) The vesting date of the share options for Period 1 to 6 is the date of grant. The share options for Period 7 and 8 are subject to one and half year vesting period.
- (b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (c) The weighted average share price of the Company at the date of exercise was HK\$3.31 (2007: HK\$1.94).

Weighted average exercise prices of share options

For the year ended 31 March 2007

At 1 April 2006	0.41
Exercised during the year	0.76
Lapsed during the year	0.41
At 31 March 2007	1.18

For the year ended 31 March 2008

At 1 April 2007	1.18
Granted during the year	3.92
Exercised during the year	0.60
At 31 March 2008	3.67

- (d) The weighted average remaining contractual life of the share options outstanding at 31 March 2008 was approximately 1.1 years (2007: 4.1 years).

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For the year ended 31 March 2008

40. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year ended 31 March 2008 was estimated as at the date of grant using a Binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the weighted average inputs to the model used for the year ended 31 March 2008.

Dividend yield (%)	0%
Expected volatility (%)	46.5%
Risk-free interest rate (%)	3.82%
Expected life of option (year)	1.13 years
Weighted average share price (HK\$)	3.82

The expected life of the options is based on the historical data over the past one year and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At 31 March 2008, the Company had 94,500,000 (2007: 12,570,000) share options outstanding under the Scheme, which represented approximately 8% (2007: 8%) of the Company's share in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 94,500,000 (2007: 12,570,000) additional ordinary shares of the Company and additional share capital of HK\$945,000 (2007: HK\$125,700) and share premium of HK\$345,867,000 (2007: HK\$14,645,000) (before issue expenses).

41. 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.

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

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 pursuant to a capital restructuring on 25 July 2003.

The share premium account mainly includes shares issued at a premium.

Other reserve represents the difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from minority equity holders.

In accordance with relevant PRC regulations, certain subsidiaries of the Company are required to appropriate not less than 10% of their profits after tax to the respective statutory reserves, until the respective balances of the fund reach 50% of the respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to offset against their respective accumulated losses, if any.

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41. RESERVES (Continued)

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Convertible bond equity reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2006	306,801	70,725	-	95,029	26,242	-	-	(266,145)	232,652
Issue of convertible bonds	-	-	-	-	-	10,413	-	-	10,413
Convertible bonds exercised	229,022	-	-	-	-	(8,087)	-	-	220,935
Placing and subscription of new shares	454,818	-	-	-	-	-	-	-	454,818
Share issue expenses	(5,717)	-	-	-	-	-	-	-	(5,717)
Share options exercised	77,615	-	-	-	(20,476)	-	-	-	57,139
Arising from disposal of subsidiaries	-	-	-	(95,029)	-	-	-	-	(95,029)
Profit for the year	-	-	-	-	-	-	-	64,765	64,765
Total recognised income and expense for the year	-	-	-	-	-	-	-	64,765	64,765
At 31 March 2007 and 1 April 2007	1,062,539	70,725	-	-	5,766	2,326	-	(201,380)	939,976
Convertible bonds exercised	67,548	-	-	-	-	(2,326)	-	-	65,222
Placing and subscription of new shares	46,798	-	-	-	-	-	-	-	46,798
Repurchase of shares	(5,273)	-	-	-	-	-	-	-	(5,273)
Share repurchase expenses	(19)	-	-	-	-	-	-	-	(19)
Equity-settled share option arrangements	-	-	-	-	49,526	-	-	-	49,526
Share issue expenses	(122)	-	-	-	-	-	-	-	(122)
Share options exercised	2,524	-	-	-	(604)	-	-	-	1,920
Transfer to capital redemption reserve	-	-	12	-	-	-	-	(12)	-
Currency translation	-	-	-	-	-	-	(412)	-	(412)
Net income/(expense) recognised directly in equity	-	-	-	-	-	-	(412)	-	(412)
Loss for the year	-	-	-	-	-	-	-	(27,115)	(27,115)
Total recognised income and expense for the year	-	-	-	-	-	-	(412)	(27,115)	(27,527)
At 31 March 2008	1,173,995	70,725	12	-	54,688	-	(412)	(228,507)	1,070,501

41. RESERVES (Continued)**(b) Company (Continued)**

The capital reserve of the Company 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 capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.

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.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES

- (a) On 24 April 2007, the Group acquired 75.5% equity interest in 江河水務有限公司 and its subsidiaries and its associates (together, the “江河水務 Group”) at a consideration of RMB47,750,000 (approximately HK\$47,750,000). 江河水務 Group is principally engaged in water supply and water supply infrastructure.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total purchase consideration	47,750
Fair value of net assets acquired	(38,919)
Goodwill	8,831

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of 江河水務 Group.

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For the year ended 31 March 2008

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(a) (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	24,203	24,203
Prepaid land lease payments	2,779	2,779
Interests in associates	36,238	36,238
Trade receivables	426	426
Prepayments, deposits and other receivables	1,139	1,139
Bank and cash balances	34,538	34,538
Trade payables	(50)	(50)
Accrued liabilities, deposits received and other payables	(38,435)	(38,435)
Other borrowings	(1,780)	(1,780)
Minority interests	(20,139)	(20,139)
Net assets attributed to the Group acquired	<u>38,919</u>	<u>38,919</u>
Bank and cash balances in subsidiaries acquired		34,538
Cash consideration		<u>(47,750)</u>
Net outflow		<u>(13,212)</u>

Since its acquisition, 江河水務 Group contributed revenue of HK\$5,485,000 and net profit of HK\$11,755,000 to the Group for the period from 24 April 2007 to 31 March 2008.

Had the combination taken place on 1 April 2007, the revenue and the net profit of the Group for the year ended 31 March 2008 would have been HK\$772,925,000 and HK\$520,224,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

- (b) On 28 May 2007, the Group acquired additional 39.94% equity interest in 廣東新會水務 at a consideration of RMB73,700,000 (approximately HK\$66,540,000). Taking into account the Group's 6.04% effective equity interest in 廣東新會水務 before the acquisition, the Group has 45.98% effective equity interest in 廣東新會水務 upon completion of the acquisition. 廣東新會水務 is principally engaged in water supply business and water supply infrastructure.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Cash consideration	26,540
Deposit paid (note 23 (ii)(a))	40,000
Transfer from other financial assets	18,556
	85,096
Total consideration	85,096
Fair value of net assets acquired	(103,311)
	(18,215)
Excess over the cost of a business combination recognised in the income statement	(18,215)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	102,015	102,015
Inventories	4,526	4,526
Trade receivables	4,494	4,494
Prepayments, deposits and other receivables	117,777	117,777
Bank and cash balances	4,461	4,461
Trade payables	(5,313)	(5,313)
Accrued liabilities, deposits received and other payables	(6,521)	(6,521)
Bank loans	(16,320)	(16,320)
Provision for tax	(124)	(124)
Minority interest	(101,684)	(101,684)
	103,311	103,311
Net assets attributed to the Group acquired	103,311	103,311
Bank and cash balances in subsidiaries acquired		4,461
Cash consideration		(26,540)
		(22,079)
Net outflow		(22,079)

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For the year ended 31 March 2008

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(b) (Continued)

Since its acquisition, 廣東新會水務 contributed revenue of HK\$79,483,000 and net profit of HK\$14,748,000 to the Group for the period from 28 May 2007 to 31 March 2008.

Had the combination taken place on 1 April 2007, the revenue and the net profit of the Group for the year ended 31 March 2008 would have been HK\$782,636,000 and HK\$520,280,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

(c) On 1 April 2007, the Group acquired 48% effective equity interest in 仙女湖游船 at a consideration of RMB20,300,000 (approximately HK\$20,300,000). 仙女湖游船 is principally engaged in sightseeing business.

Details of the net assets acquired are as follows:

	HK\$'000
Total consideration contributed by the Group	9,744
Fair value of net assets acquired	(9,744)
	—

The assets arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	16,817	16,817
Prepayments, deposits and other receivables	3,483	3,483
Minority interests	(10,556)	(10,556)
Net assets attributed to the Group acquired	9,744	9,744
Deposit paid (note 23 (ii)(e))		20,300
Consideration		(20,300)
Net outflow		—

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(c) (Continued)

Since its acquisition, 仙女湖游船 contributed revenue of HK\$4,765,000 and net loss of HK\$456,000 to the Group for the period from 1 April 2007 to 31 March 2008.

(d) On 10 July 2007, the Group acquired 45.98% effective equity interest in 江門市銀龍消防工程有限公司 (“江門市銀龍消防”) at a consideration of RMB3,000,000 (approximately HK\$3,076,000). 江門市銀龍消防 is principally engaged in fire work installation.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total consideration contributed by the Group	1,414
Fair value of net assets acquired	(726)
Goodwill	688

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of 江門市銀龍消防.

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For the year ended 31 March 2008

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(d) (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	775	775
Inventories	1,181	1,181
Trade receivables	355	355
Prepayments, deposits and other receivables	4	4
Bank and cash balances	37	37
Trade payables	(375)	(375)
Accrued liabilities and other payables	(398)	(398)
Minority interests	(853)	(853)
	<hr/>	<hr/>
Net assets attributed to the Group acquired	726	726
	<hr/>	<hr/>
Bank and cash balances in subsidiaries acquired		37
Consideration		(3,076)
		<hr/>
Net outflow		(3,039)
		<hr/>

Since its acquisition, 江門市銀龍消防 contributed revenue of HK\$236,000 and net loss of HK\$255,000 to the Group for the period from 10 July 2007 to 31 March 2008.

Had the combination taken place on 1 April 2007, the revenue and the net profit of the Group for the year ended 31 March 2008 would have been HK\$772,621,000 and HK\$519,966,000 respectively. These pro forma information are for illustrative purpose only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

- (e) On 1 April 2007, the Group acquired additional 28% effective equity interest in 荊州水務泉鑫物資貿易有限公司 (“荊州泉鑫物資”) at a consideration of RMB340,000 (approximately HK\$340,000). Upon completion of the acquisition, the Group held 51% effective equity interest in 荊州泉鑫物資. 荊州泉鑫物資 is principally engaged in trading of water supply material and was accounted for as an associate during the year ended 31 March 2007.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total consideration contributed by the Group	173
Transfer from interests in associates	472
Fair value of net assets acquired	(507)
Goodwill	138

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	7	7
Inventories	7,610	7,610
Trade receivables	2,058	2,058
Prepayments, deposits and other receivables	426	426
Bank and cash balances	1,657	1,657
Trade payables	(3,107)	(3,107)
Amounts due to related companies	(7,656)	(7,656)
Minority interests	(488)	(488)
	507	507
Net assets attributed to the Group acquired		
Bank and cash balances in subsidiaries acquired		1,657
Consideration		(340)
Net inflow		1,317

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42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(e) (Continued)

Since its acquisition, 荊州泉鑫物資 contributed revenue of HK\$9,962,000 and net profit of HK\$439,000 to the Group for the period from 1 April 2007 to 31 March 2008.

(f) On 1 April 2007, the Group acquired additional 26% effective equity interest in 荊州水務鼎鑫源工程有限公司 (“荊州鼎鑫源”) at a consideration of RMB854,000 (approximately HK\$854,000). Upon completion of the acquisition, the Group held 51% effective equity interest in 荊州鼎鑫源 after acquisition. 荊州鼎鑫源 is principally engaged in trading of water supply infrastructure and was accounted for as an associate during the year ended 31 March 2007.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total consideration contributed by the Group	435
Transfer from interests in associates	503
Fair value of net assets acquired	(493)
Goodwill	445

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of 荊州鼎鑫源.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(f) (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	177	177
Inventories	510	510
Trade receivables	474	474
Prepayments, deposits and other receivables	2,192	2,192
Bank and cash balances	438	438
Trade payables	(51)	(51)
Accrued liabilities and other payables	(2,774)	(2,774)
Minority interests	(473)	(473)
	<hr/>	<hr/>
Net assets attributed by the Group acquired	493	493
	<hr/> <hr/>	<hr/> <hr/>
Bank and cash balances in subsidiaries acquired		438
Consideration		(854)
		<hr/>
Net outflow		(416)
		<hr/> <hr/>

Since its acquisition, 荊州鼎鑫源 contributed revenue of HK\$28,606,000 and net profit of HK\$2,026,000 to the Group for the period from 1 April 2007 to 31 March 2008.

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For the year ended 31 March 2008

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

- (g) On 31 July 2007, the Group acquired the entire assets and liabilities and the water supply business from 江門市新會鑫源自來水有限公司 at a consideration of RMB104,291,000 (approximately HK\$115,545,000).

Details of the net assets acquired are as follows:

	HK\$'000
Total consideration	115,545
Fair value of net assets acquired	(115,545)
	—

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	100,102	100,102
Prepaid land lease payments	30,350	30,350
Inventories	268	268
Trade receivables	3,334	3,334
Prepayments, deposits and other receivables	67,079	67,079
Bank and cash balances	842	842
Trade payables	(63,213)	(63,213)
Accrued liabilities, deposits received and other payables	(5,404)	(5,404)
Bank loans	(17,727)	(17,727)
Provision for tax	(86)	(86)
Net assets acquired	115,545	115,545
Bank and cash balances acquired		842
Consideration		(115,545)
Net outflow		(114,703)

Since its acquisition, 江門市新會鑫源自來水有限公司 contributed revenue of HK\$23,640,000 and net profit of HK\$812,000 to the Group for the period from 31 July 2007 to 31 March 2008.

Had the combination taken place on 1 April 2007, the revenue and the net profit of the Group for the year ended 31 March 2008 would have been HK\$780,258,000 and HK\$520,192,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

- (h) On 31 August 2007, the Group acquired the entire assets and liabilities and the water supply business from 分宜縣自來水公司 (“分宜自來水”) at a consideration of RMB25,000,000 (approximately HK\$25,938,000).

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total purchase consideration	25,938
Fair value of net assets acquired	(21,289)
	4,649
Goodwill	4,649

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of 分宜自來水.

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	23,632	23,632
Prepaid land lease payments	5,545	5,545
Inventories	828	828
Trade receivables	139	139
Prepayments, deposits and other receivables	1,832	1,832
Bank and cash balances	88	88
Trade payables	(252)	(252)
Accrued liabilities, deposits received and other payables	(4,619)	(4,619)
Bank loans	(5,904)	(5,904)
	21,289	21,289
Net assets acquired	21,289	21,289
Bank and cash balances acquired		88
Consideration		(25,938)
		(25,850)
Net outflow		(25,850)

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42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(h) (Continued)

Since its acquisition, 分宜自來水 contributed revenue of HK\$6,391,000 and net profit of HK\$1,431,000 to the Group for the period from 31 August 2007 to 31 March 2008.

Had the combination taken place on 1 April 2007, the revenue and the net profit of the Group for the year ended 31 March 2008 would have been HK\$776,807,000 and HK\$520,773,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

(i) On 28 January 2008, the Group acquired assets and the water supply business from 江陵縣建設局 at a consideration of RMB19,000,000 (approximately HK\$21,072,000).

Details of the net assets acquired are as follows:

	HK\$'000
Total consideration	21,072
Fair value of net assets acquired	(21,072)
	—

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Prepaid land lease payments	8,064	8,064
Property, plant and equipment	13,008	13,008
Net assets acquired	21,072	21,072
Consideration		(21,072)
Net outflow		(21,072)

Since its acquisition, 江陵縣建設局 contributed revenue of HK\$525,000 and net profit of HK\$208,000 to the Group for the period from 28 January 2008 to 31 March 2008.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(i) (Continued)

Had the combination taken place on 1 April 2007, the revenue and the net profit of the Group for the year ended 31 March 2008 would have been HK\$773,973,000 and HK\$520,290,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

(j) On 31 December 2006, the Group acquired 100% equity interest in 嵊州市水電開發有限公司 (“嵊州水電”) at a cash consideration of RMB129,234,000 (equivalent to approximately HK\$129,234,000). The principal activity of 嵊州水電 is the holding of 11.34% equity interest in Qian Jiang.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total purchase consideration	129,234
Fair value of net assets acquired	(133,950)
Excess over the cost of a business combination recognised in the income statement	(4,716)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Financial assets at fair value through profit or loss	133,894	133,894
Prepayments, deposits and other receivables	19,714	19,714
Bank and cash balances	357	357
Accrued liabilities and other payables	(15)	(15)
Bank loans	(20,000)	(20,000)
Net assets acquired	133,950	133,950
Bank and cash balances in subsidiaries acquired		357
Cash consideration		(129,234)
Net outflow		(128,877)

Since its acquisition, 嵊州水電 did not contribute revenue to the Group but contributed net gain of HK\$93,878,000 to the Group for the period from 31 December 2006 to 31 March 2007.

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For the year ended 31 March 2008

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(j) (Continued)

Had the combination taken place on 1 April 2006, the revenue and the net gain of the Group for the year ended 31 March 2007 would have been HK\$140,344,000 and HK\$122,034,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor are they intended to be a projection of future results.

(k) On 26 January 2007, the Group acquired 100% equity interest in 重慶市永川區僑立水務有限公司 and the remaining 10% equity interest in 重慶僑立市政設施工程有限公司 (together, the "Chongqing Water Group") at a consideration of RMB105,500,000 (approximately HK\$103,427,000). Chongqing Water Group is principally engaged in water supply and water supply infrastructure.

Details of the net assets acquired and goodwill are as follows:

	HK\$'000
Total purchase consideration	103,427
Direct costs relating to the acquisition	4,769
Fair value of net assets acquired	(27,846)
Goodwill	80,350

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Chongqing Water Group.

42. ACQUISITION OF SUBSIDIARIES AND BUSINESSES (Continued)

(k) (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	70,605	70,605
Prepaid land lease payments	2,924	2,924
Inventories	2,270	2,270
Trade receivables	2,378	2,378
Prepayments, deposits and other receivables	7,751	7,751
Bank and cash balances	10,421	10,421
Trade payables	(5,885)	(5,885)
Accrued liabilities, deposits received and other payables	(11,532)	(11,532)
Government loans	(9,727)	(9,727)
Bank loans	(41,200)	(41,200)
Provision for tax	(159)	(159)
	27,846	27,846
Net assets acquired	27,846	27,846
Bank and cash balances in subsidiaries acquired		10,421
Cash consideration		(103,427)
Direct costs relating to the acquisition paid		(4,769)
		(97,775)
Net outflow		(97,775)

Since its acquisition, Chongqing Water Group contributed revenue of HK\$5,620,000 and net profit of HK\$64,000 to the Group for the period from 26 January 2007 to 31 March 2007.

Had the combination taken place on 1 April 2006, the revenue and the net profit of the Group for the year ended 31 March 2007 would have been HK\$218,950,000 and HK\$111,644,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor are they intended to be a projection of future results.

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For the year ended 31 March 2008

43. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Disposal of subsidiaries

	2008 HK\$'000	2007 HK\$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	60,123	–
Prepaid land lease payments	1,054	–
Bank and cash balances	14,230	–
Deposit for acquisition of equity instrument	5,100	–
Trade receivables	4	–
Inventories	10,584	–
Prepayments, deposits and other receivables	8,247	2,209
Trade payables	(519)	(714)
Provision for tax	(7,267)	–
Accrued liabilities and other payables	(20,413)	(366)
Due to minority equity holders of subsidiaries	(7,618)	–
Other loans	(3,635)	–
Minority interests	(30,243)	(432)
	<u>29,647</u>	<u>697</u>
Due to group companies disposed of	(19,258)	(410,356)
Release of exchange fluctuation reserve upon disposal	(3,364)	–
Release of other reserve upon disposal	11,636	–
Release of capital reserve upon disposal	–	(340)
Gain/(Loss) on disposal of subsidiaries	353,219	(357)
	<u>371,880</u>	<u>(410,356)</u>

43. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(a) Disposal of subsidiaries (Continued)

	2008 HK\$'000	2007 HK\$'000
Satisfied by:		
Waiver of amounts due from the disposed subsidiaries by the Group	(19,258)	(410,356)
China Botanic Convertible Bonds acquired (note 20), at fair value	239,220	–
China Botanic Shares acquired (note 19(a)), at fair value	151,918	–
Total consideration	371,880	(410,356)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2008 HK\$'000	2007 HK\$'000
Bank and cash balances disposed of	(14,230)	–
Net outflow	(14,230)	–

The disposed subsidiaries during the year ended 31 March 2008 contributed revenue of HK\$6,960,000 and net loss of HK\$8,588,000 respectively to the Group for the period from 1 April 2007 to 26 November 2007 (being effective date of disposal).

The disposed subsidiaries during the year ended 31 March 2007 did not contribute revenue to the Group but contributed net loss of HK\$13,000 to the Group for the period from 1 April 2006 to 7 February 2007 (being effective date of disposal).

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For the year ended 31 March 2008

43. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(b) Major non-cash transactions

In addition to those disclosed elsewhere in the financial statements, the Group had the following major non-cash transactions:

- (i) During the year ended 31 March 2007, registered capitals of certain subsidiaries of the Company in the PRC were paid up by transfer of net assets at a total net carrying value of HK\$108,351,000, which mainly comprised the property, plant and equipment of HK\$135,664,000, land use rights of HK\$19,701,000 and borrowings of HK\$25,900,000, from the minority equity holders of those subsidiaries. The excess of net assets over the registered capital of a subsidiary paid up by a minority equity holder of the subsidiary amounted to HK\$210,384,000, which mainly comprised the property, plant and equipment of HK\$233,685,000, land use rights of HK\$55,795,000 and borrowings of HK\$60,641,000 was settled through the current account with the minority equity holder.
- (ii) During the year ended 31 March 2007, the net assets of a subsidiary of the Company in the PRC at a total net carrying value of HK\$11,837,000, which mainly comprised the property, plant and equipment of HK\$23,227,000, and borrowings of HK\$11,152,000, were distributed to the minority equity holder of the subsidiary as a result of a capital reduction of the subsidiary.
- (iii) During the year ended 31 March 2008, the Group purchased the property, plant and equipment of HK\$105,870,000 from the minority equity holder and was settled through the current account with the minority equity holder.
- (iv) During the year ended 31 March 2008, registered capital of a subsidiary of the Company in the PRC were paid up by transfer of net assets at a total net carrying value of HK\$20,691,000, which mainly comprised the property, plant and equipment of HK\$33,495,000, land use rights of HK\$5,315,000 and borrowings of HK\$7,345,000, from the minority equity holder of the subsidiary. The excess of net assets over the registered capital of the subsidiary paid up by the minority equity holder of the subsidiary amounted to HK\$4,334,000 was settled through the current account with the minority equity holder.
- (v) During the year ended 31 March 2008, equity-settled share options expenses of HK\$49,526,000 were charged to income statement.

44. COMMITMENTS

At the balance sheet date, the Group/Company had the following outstanding commitments:

(i) Capital commitments

	Group	
	2008 HK\$'000	2007 HK\$'000
Contracted, but not provided for		
– Construction in progress	67,059	168,849
– Plant and machinery	9,799	12,019
– Leasehold improvements	448	–
– Water pipelines	18,623	4,486
	95,929	185,354

(ii) Operating lease arrangement

As lessee

The Group leases certain of its leasehold land, office premises and properties under operating lease arrangements for terms ranging from one to twenty years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the Group and the landlords. None of the leases include contingent rentals.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008 HK\$'000	2007 HK\$'000
Within one year	4,912	4,344
In the second to fifth years, inclusive	9,196	11,462
After five years	19,301	23,600
	33,409	39,406

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For the year ended 31 March 2008

44. COMMITMENTS (Continued)

(ii) Operating lease arrangement (Continued)

As lessor

The Group sub-leases certain of its leased properties under operating lease arrangements for terms ranging from one to five years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the Group and the lessees. None of the leases include contingent rentals.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK\$'000	HK\$'000
Within one year	1,271	973
In the second to fifth years, inclusive	1,415	1,359
	2,686	2,332

(iii) At the balance sheet date, the Group had other commitments amounted to HK\$540,833,000 (2007: HK\$389,408,000) in respect of its business development and infrastructure projects in the PRC.

(iv) At 31 March 2008, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$240,435,000 (2007: HK\$141,839,000).

45. PRELIMINARY AGREEMENTS

During the financial years presented and up to the approval of these financial statements, the Group entered into various preliminary agreements with various parties in respect of the preliminary investments and establishment of joint ventures in the PRC which will be principally engaged in the provision of water supply and other related businesses. These preliminary agreements (the "Preliminary Agreements") are not legally binding and their terms and conditions have not been agreed and finalised. Details of the Preliminary Agreements were set out in the respective Company's announcements.

46. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk (including principally changes in interest rates and currency exchange rates), credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Credit risk

Except for investment in debt securities, conversion options embedded in convertible bonds and other financial assets of HK\$577,741,000 which are held directly by the Group, the maximum credit risk exposure of the financial assets is summarised in note (g) below.

The Group's bank balances are deposited with Hong Kong and the PRC banks;

The Group has significant concentration of credit risk in relation to its receivables from customers amounting to HK\$302,586,000 arising from its infrastructure construction operation.

There is no requirement for collateral by the Group.

(b) Foreign currency risk

The Group's exposure to currency exchange rate is minimal as majority of the subsidiaries of the Group operates in the PRC with most of the transactions denominated and settled in RMB. Accordingly, the Group does not use derivative financial instruments to hedge its foreign currency risk.

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46. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Interest rate risk

The Group's exposure to interest rate risk mainly arises on bank deposits and interest-bearing borrowings at floating rates (note 34). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Interest rate sensitivity

If the interest rates had been increased/decreased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK\$90,000 (2007: HK\$1,316,000) and the Company's loss after tax and accumulated losses would decrease/increase by approximately HK\$119,000 (2007: HK\$53,000). The assumed changes have no impact on the Group's and the Company's other components of equity.

The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity.

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Price risk

The financial assets at fair value through profit or loss, conversion options embedded in convertible bonds, derivative financial instruments and certain available-for-sale financial assets are stated at fair value and expose the Group to price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risk at the reporting dates.

If the share price input to the valuation model had been 10% higher while all other variables were held constant, the profit after tax for the year ended 31 March 2007 and 31 March 2008 would increase by approximately HK\$15,432,000 and HK\$27,506,000 respectively for the Group and would increase/decrease by approximately HK\$481,000 and HK\$2,830,000 respectively for the Company. Other components of consolidated equity as at 31 March 2008 would increase by approximately HK\$7,846,000 for the Group (2007: Nil).

If the share price input to the valuation model had been 10% lower while all other variables were held constant, the profit after tax for the year ended 31 March 2007 and 31 March 2008 would decrease by approximately HK\$15,432,000 and HK\$24,850,000 respectively for the Group and would decrease/increase by approximately HK\$481,000 and HK\$4,843,000 respectively for the Company. Other components of consolidated equity as at 31 March 2008 would decrease by approximately HK\$7,846,000 for the Group (2007: Nil).

It is also assumed that none of the Group's available-for-sale financial assets would be considered impaired as a result of a reasonably possible decrease in the share price.

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46. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on internally generated funding and borrowings as significant sources of liquidity. The Group is exposed to liquidity risk arising from certain redemption rights of the convertible bonds (note 37).

The maturity profile of the Group's financial liabilities as at the balance sheet dates, based on the contracted undiscounted payments, was as follows:

Group

	On demand HK\$'000	Less than three months HK\$'000	Three to twelve months HK\$'000	Over one year HK\$'000	Total HK\$'000
At 31 March 2008					
Trade payables	135,767	29,025	–	–	164,792
Other payables	255,386	–	–	–	255,386
Borrowings	55,381	38,870	87,641	550,531	732,423
Due to minority equity holders of subsidiaries	229,657	–	–	–	229,657
Convertible bonds	–	–	–	863,005	863,005
	<u>676,191</u>	<u>67,895</u>	<u>87,641</u>	<u>1,413,536</u>	<u>2,245,263</u>
At 31 March 2007					
Trade payables	15,465	15,438	–	–	30,903
Other payables	104,979	–	–	–	104,979
Borrowings	48,121	11,602	69,512	436,189	565,424
Due to director	5,652	–	–	–	5,652
Due to minority equity holders of subsidiaries	185,761	–	–	–	185,761
Convertible bonds	–	–	–	84,688	84,688
	<u>359,978</u>	<u>27,040</u>	<u>69,512</u>	<u>520,877</u>	<u>977,407</u>

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Liquidity risk (Continued)

Company

	On demand HK\$'000	Less than three months HK\$'000	Three to twelve months HK\$'000	Over one year HK\$'000	Total HK\$'000
At 31 March 2008					
Other payables	10,172	–	–	–	10,172
Due to subsidiaries	27,904	–	–	–	27,904
Convertible bonds	–	–	–	863,005	863,005
	<u>38,076</u>	<u>–</u>	<u>–</u>	<u>863,005</u>	<u>901,081</u>
At 31 March 2007					
Other payables	25,208	–	–	–	25,208
Due to subsidiaries	4,805	–	–	–	4,805
Convertible bonds	–	–	–	84,688	84,688
	<u>30,013</u>	<u>–</u>	<u>–</u>	<u>84,688</u>	<u>114,701</u>

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For the year ended 31 March 2008

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(g) Summary of financial assets and liabilities by categories

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at the balance sheet dates are also analysed into the following categories. See notes 3.16 and 3.23 for explanations about how the category of financial instruments affects their subsequent measurement.

Financial assets

	Group		Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Loan and receivables				
– Trade receivables	355,882	23,476	–	–
– Other receivables	134,271	51,616	9,333	5,257
– Due from subsidiaries	–	–	573,975	165,429
– Due from minority equity holders of subsidiaries	18,427	6,573	–	–
– Due from former subsidiaries	–	8,054	–	–
– Due from associates	–	10,128	–	–
	508,580	99,847	583,308	170,686
– Bank balance held in escrow	–	94	–	94
– Bank and cash balances (including pledged deposit)	458,106	520,281	165,945	269,022
	966,686	620,222	749,253	439,802
At fair value through profit or loss				
– Other financial assets	296,314	228,975	1,561	5,835
– Conversion options embedded in convertible bonds	69,824	–	–	–
	366,138	228,975	1,561	5,835

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**(g) Summary of financial assets and liabilities by categories (Continued)****Financial assets**

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale financial assets				
– Other financial assets	359,888	41,506	–	–
– Investment in debt securities	132,414	–	–	–
	492,302	41,506	–	–
	1,825,126	890,703	750,814	445,637

Financial liabilities

	Group		Company	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Measured at amortised cost				
– Trade payables	164,792	30,903	–	–
– Other payables	255,386	104,979	10,172	25,208
– Borrowings	563,309	428,655	–	–
– Due to a director	–	5,652	–	–
– Due to subsidiaries	–	–	27,904	4,805
– Due to minority equity holders of subsidiaries	229,657	185,761	–	–
– Convertible bonds	590,250	64,900	590,250	64,900
	1,803,394	820,850	628,326	94,913
At fair value through profit or loss				
– Derivative financial instruments	94,635	–	94,635	–
	1,898,029	820,850	722,961	94,913

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47. CAPITAL MANAGEMENT

The Group's capital management objectives include:

- (i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for equity holders and benefits for other stakeholders;
- (ii) to support the Group's stability and growth; and
- (iii) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount dividends paid to equity holders, return capital to equity holders, issue new shares, or sell assets to reduce debt.

The capital-to-overall financing ratio at the balance sheet date was as follows:

	Group	
	2008 HK\$'000	2007 HK\$'000
Capital		
Total equity	2,226,344	1,284,297
Overall financing		
Borrowings	563,309	428,655
Convertible bonds	590,250	64,900
Derivative financial instruments	94,635	–
Due to a director	–	5,652
Due to minority equity holders of subsidiaries	229,657	185,761
	1,477,851	684,968
Capital-to-overall financing ratio	1.51 times	1.87 times

48. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material related party transactions:

(a)

	Notes	2008 HK\$'000	2007 HK\$'000
Loans from minority equity holders of subsidiaries	(i)	–	2,999
Sale to a minority equity holder of subsidiaries	(ii)	–	23,241
Receipt-in-advance from a minority equity holder of subsidiaries	(iii)	–	13,569
Sales of listed equity investment to a director	(iv)	72,741	–

Notes:

- (i) Loans from minority equity holders of subsidiaries are unsecured, bearing interest ranging from non-interest bearing to 6.1% per annum and are included in other loans in note 34 for the year ended 31 March 2007. The terms of the loans were based on mutually agreed terms.
 - (ii) The sales represented sale of biological assets to China National Administration Center for Sea Buckthorn Development, a minority equity holder of subsidiaries. The sales were based on mutually agreed terms.
 - (iii) An aggregate amount of receipt-in-advance of HK\$13,569,000 was received from China National Administration Center for Sea Buckthorn Development, a minority equity holder of subsidiaries during the year ended 31 March 2007. This amount was made for the sales of biological assets based on mutually agreed terms and was included under “accrued liabilities, deposits received and other payables”.
 - (iv) During the year ended 31 March 2008, the Group entered into an agreement with AFRL for the disposal of a total of 427,890,908 ordinary shares of Prime Investments Holdings Limited (“PIHL”) at a price of HK\$0.17 per share, which represented approximately 87.92% of the issued share capital of PIHL. The total cash consideration was approximately HK\$72,741,000. The gain on disposal amounted to approximately HK\$21,363,000 was included in fair value gain on financial assets at fair value through profit or loss (note 5). This related party transaction also constitutes connected transaction as defined in Listing Rules.
- (b) During the year ended 31 March 2008, the Group made repayment of HK\$5,652,000 (2007: HK\$2,415,000) to Mr. Duan Chuan Liang. The current account with Mr. Duan Chuan Liang is unsecured, interest-free and repayable on demand. During the year ended 31 March 2007, the amount due to a former minority equity holder of a subsidiary of HK\$5,773,000 was assigned to Mr. Duan Chuan Liang.

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48. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group:

	2008 HK\$'000	2007 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	8,588	5,137
– Share-based payments	37,773	–
– Retirement scheme contribution	33	46
	<u>46,394</u>	<u>5,183</u>

(d) During the year ended 31 March 2008, the Group acquired additional 5.71% equity interest in 江河水務 from the minority equity holder at a consideration of RMB14,800,000 (approximately HK\$16,397,000). The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the minority equity holder has been dealt with in the other reserve.

(e) During the year ended 31 March 2008, the Group acquired additional approximately 4.02% equity interest in 廣東新會水務 from the minority equity holder at a consideration of RMB18,556,000 (approximately HK\$20,558,000). The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the minority equity holder has been dealt with in the other reserve.

(f) During the year ended 31 March 2007, the Group acquired additional 30% of the issued share capital of CEWHL, a 70% owned subsidiary of the Group from the minority equity holder at a consideration of HK\$19,200,000. CEWHL and its subsidiaries are principally engaged in the cultivation, manufacture and sale of sea buckthorn's seedlings and products. Further details of which are disclosed in the Company's announcement dated 16 November 2006. The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the minority equity holder has been dealt with in the other reserve.

49. POST BALANCE SHEET EVENTS

In addition to those disclosed elsewhere in these financial statements, the Group had the following material post balance sheet events:

On 9 May 2008, the Company entered into a preliminary agreement with 江西省資產集團公司 (Jiangxi Province Administrative Assets Group Company) (the "JPAAG") pursuant to which JPAAG would grant to the Company the first refusal right regarding the proposed acquisition of the right to operate the sewage treatment plants upon completion of their construction by the JPAAG. In consideration of the granting of the first refusal right, the Company shall pay to JPAAG a refundable security deposit of RMB50 million by the end of 2008. The proposed acquisition is subject to the negotiation and finalisation of the formal agreement between the parties.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 July 2008.

Particulars of Properties for Investment 153

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Location	Type	Lot number	Lease term
中國江西省新余市體育中心西側	Commercial/ residential	1-3-708	40 years/ 70 years
中國江西省新余市新欣大道以東，高新大道以北	Commercial	E13-2	40 years

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RESULTS

	2008 HK\$'000	Year ended 31 March			
		2007 HK\$'000 (Restated)	2006 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)
Revenue					
Continuing operations	765,538	134,735	46,813	48,467	33,187
Discontinued operation	6,960	5,609	6,088	–	–
	772,498	140,344	52,901	48,467	33,187
Profit/(Loss) before income tax					
Continuing operations	310,484	129,790	(25,727)	(29,802)	(99,338)
Discontinued operation	344,631	21,888	5,474	–	–
	655,115	151,678	(20,253)	(29,802)	(99,338)
Income tax expense					
Continuing operations	(135,111)	(44,512)	(3,767)	(1,185)	–
Discontinued operation	–	(4,222)	(990)	–	–
	(135,111)	(48,734)	(4,757)	(1,185)	–
Profit/(Loss) for the year					
Continuing operations	175,373	85,278	(29,494)	(30,987)	(99,338)
Discontinued operation	344,631	17,666	4,484	–	–
	520,004	102,944	(25,010)	(30,987)	(99,338)
Attributable to:					
Equity holders of the Company	427,242	63,379	(38,590)	(29,269)	(97,618)
Minority interests	92,762	39,565	13,580	(1,718)	(1,720)
	520,004	102,944	(25,010)	(30,987)	(99,338)

ASSETS AND LIABILITIES

	2008 HK\$'000	At 31 March			
		2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Total assets	4,426,432	2,259,290	530,464	111,645	98,223
Total liabilities	(2,200,088)	(974,993)	(191,275)	(69,119)	(68,148)
Minority interests	(468,760)	(240,098)	(97,859)	(7,476)	(9,791)
Equity attributable to equity holders of the Company	1,757,584	1,044,199	241,330	35,050	20,284

Note: Certain comparative figures have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 April 2005.