中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

Annual Report **2009/10**

* For identification purposes only

Contents

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

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
Agricultural Development Bank of China

WEBSITE

http://www.chinawatergroup.com

STOCK CODE

855

I'm pleased to present to you the Group's results for the financial year ended 31 March 2010. For the year ended 31 March 2010, the Group recorded a turnover of HK$1,398.2 million, representing an increase of 35% from HK$1,033.2 million recorded last year. The Group recorded a gross profit of HK$586.6 million representing an increase of 83% from HK$320.8 million last year. For the year under review, the Group recorded a profit for the year of HK$444.7 million (2009: HK$228.7 million). The basic earnings per share increased by 148% to 23.31 cents.

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.

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 projects had made, for the year, and will make major contribution to the Group's profit.

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.

BUSINESS REVIEW

(I) 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 operation and construction amounted to approximately HK$907.8 million (2009: HK$656.9 million), representing an increase of 38% as compared with last year.

City water supply projects owned by the Group spread various provinces and municipalities across China, including provinces such as Hunan, Henan, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing Municipality. The total water segment profits (including city water supply, water related installation works and meter installation) amounted to approximately HK$270.7 million (2009: HK$142.8 million).

(II) Sewage Business Analysis

During the year, the Group has recorded revenue from sewage treatment operation and construction business of HK$78.4 million (2009: HK$82.4 million). Sewage treatment projects operated by the Group are mainly derived from Hubei and Jiangxi provinces. The total sewage segment profit (including sewage treatment operation and construction) amounted to approximately HK$18.8 million (2009: HK$16.8 million).

(III) Investment Business Analysis

As at the reporting 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). The Group has disposed 7,742,000 A shares of Qian Jiang with gross sale proceeds of approximately HK$85 million.

The proceeds from disposal of shares have been retained for development of current water projects.

(IV) Property Business Analysis

During the year, the Group has recorded revenue from property business of HK$50.1 million (2009: Nil) which was derived from the sale of properties located in Xinyu City of Jiangxi province. The total property segment profit amounted to approximately HK$21.2 million (2009: HK$225.4 million).

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.

The Group will also continue to implement its strategies for development of water supply and related business opportunities in the PRC. Given the Group's competitive advantages and expertise in water supply business, favourable government policies that promote the sustainable development of high quality water supply business in the PRC and the water business is less influenced by the current blur capital market and economy outlook, the Directors believe that the Company can benefit from the favourable industry development and the continuous development of water business is in the best interest of the Company and the shareholders as a whole.

MAJOR ACQUISITIONS AND DISPOSALS

Details of the Group's acquisitions and disposals during the years ended 31 March 2009 and 2010 are set out in notes 44 and 47(a) to the financial statements respectively.

CAPITAL RAISING

On 26 June 2009, Mr. Duan Chuan Liang, a director of the Company and Asset Full Resources Limited ("AFRL") entered into a placing agreement with Kim Eng Securities (Hong Kong) Limited for the placing of up to 120,000,000 ordinary shares of the Company at a price of HK$1.90 per share. Pursuant to a subscription agreement on the same date, Mr. Duan Chuan Liang and AFRL subscribed for 120,000,000 new ordinary shares of the Company at a price of HK$1.90 per share. On 10 July 2009, the subscription completed and raised total consideration of approximately HK$228,000,000 (before expenses).

ISSUE OF CONVERTIBLE BONDS

On 10 March 2010, the Company entered into a subscription agreement with DBS Bank Limited ("DBS") pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK$600 million. The net proceeds from the issue of convertible bonds will be used for capital expenditure, working capital and general corporate purposes. Further details of which are disclosed in note 53(a) to the financial statements and in the Company's announcement dated 10 March 2010. The transaction was completed on 15 April 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2010, the Group has total cash and bank balances of approximately HK$605.8 million (2009: HK$577.7 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 50.8% (2009: 51.5%) as at 31 March 2010. The current ratio is 1.14 times (2009: 1.15 times) as at 31 March 2010. 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 2010, the Group has employed approximately 4,500 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.

Further, the Group has cash and cash equivalents denominated in US$. Since HK$ are pegged to US$, there is no significant exposure expected on US$ transactions and balances arising in Hong Kong.

PLEDGE OF ASSETS

(i) The Group's bank loans and other loans at 31 March 2010 were secured by:

(a) pledge of water and sewage treatment 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, 新余市人大常委會 and 韶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 2010 was HK$101,026,000 (2009: HK$95,480,000);

(d) charges over interests in land use rights in which their aggregate carrying amount as at 31 March 2010 was HK$16,998,000 (2009: HK$8,584,000);

(e) charges over investment properties in which their aggregate carrying amount as at 31 March 2010 was HK$229,332,000 (2009: HK$147,426,000);

(f) charges over properties under development in which their aggregate carrying amount as at 31 March 2010 was HK$63,466,000 (2009: HK$78,598,000);

(g) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2010 was HK$176,109,000 (2009: HK$172,771,000);

(h) charges over interests in Qian Jiang Water Resources Development Co., Limited in carrying amount of HK$Nil as at 31 March 2010 (2009: HK$36,046,000);

(i) charges over the Group's bank balances in amount of HK$83,111,000 as at 31 March 2010 (2009: HK$31,587,000); and

(j) (1) charges over shares of certain subsidiaries of the Group; (2) the Group's equity interests in China Water Property Group Limited; and (3) a bank account of the Group.

CONTINGENT LIABILITIES

As at 31 March 2010, the Group did not have any material contingent liabilities (2009: 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, 27 July 2010

DIRECTORS

Executive Directors

Mr. Duan Chuan Liang, aged 47, 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 71, 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 58, 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 is currently holding directorships in certain companies listed on the Main Board of the Stock Exchange, including being an independent non-executive director of Beijing Enterprises Holdings Limited (北京控股有限公司), China Merchants Bank Co., Ltd. (招商銀行股份有限公司) and China Taiping Insurance International Holdings Company Limited (中國太平保險控股有限公司) (formerly known as "China Insurance International Holdings Company Limited (中保國際控股有限公司)"), a non-executive director of Shenzhen Investment Limited (深圳控股有限公司). Mr. Wu is non-executive director and vice chairman of China Aoyuan Property Group Limited (中國奧園地產集團股份有限公司) In April 2009, Mr. Wu is appointed as a non-executive director of Silver Base Group Holdings Limited (銀基集團控股有限公司). He joined the Group in February 2006.

Mr. Chen Guo Ru, aged 64, 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 55, 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 69, 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 55, 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 has over 35 years of accounting experience. She joined the Group in July 2003.

Ms. Liu Dong, aged 42, 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 47, 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 is now practicing as a Certified Public Accountant in Hong Kong, a council member of the Society of Chinese Accountants & Auditors in Hong Kong and an independent executive Director of Carpenter Tan Holdings Limited which listed on the main board of the Hong Kong Stock Exchange. Mr. Chau is also an independent executive Director of Eco-Tek Holdings Limited, China Non ferrous metals Company Limited and Zhejiang Shibao Company Limited which Listed on the GEM of the Hong Kong Stock Exchange. He joined the Group in March 2007.

Mr. Ong King Keung, aged 34, 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. Tam Chun Yip, aged 35, is the 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 joined the Group in September 2003.

Mr. Liu Yong, aged 41, 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. Li Xing Ping, aged 41, 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.

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).

	Meetings attended/(held)		
	Board	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Duan Chuan Liang *(Chairman)*	4/(4)	N/A	N/A
Mr. Li Ji Sheng	4/(4)	N/A	N/A
Non-executive Directors			
Mr. Chen Guo Ru	2/(4)	N/A	N/A
Mr. Zhao Hai Hu	2/(4)	N/A	N/A
Mr. Zhou Wen Zhi	0/(4)	N/A	N/A
Mr. Wu Jiesi	2/(4)	N/A	N/A
Independent Non-executive Directors			
Ms. Huang Shao Yun	4/(4)	2/(2)	1/(1)
Ms. Liu Dong	4/(4)	2/(2)	1/(1)
Mr. Chau Kam Wing	4/(4)	2/(2)	1/(1)
Mr. Ong King Keung	4/(4)	2/(2)	1/(1)

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.

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 2009 and the interim accounts for the six months ended 30 September 2009 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. The Board's review has considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. Appropriate measures and actions have been taken during the year ended 31 March 2010 on areas where rooms for improvement were identified.

AUDITORS' REMUNERATION

Total auditors' remuneration for the year ended 31 March 2010 amounted to HK$5,300,000 (2009: HK$5,350,000). No remuneration was paid for other non-audit services provided by Grant Thornton for the Company and its subsidiaries during the year ended 31 March 2010 and 2009.

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.

The Directors herein present their report and the audited financial statement of the Company and of the Group for the year ended 31 March 2010.

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 18 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 2010 is set out in note 7 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 144 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 142. The Directors recommended a final dividend of HK3 cents (2009: HK3 cents) per ordinary share, which is subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 10 September 2010, will be payable on or about Friday, 17 September 2010 to the shareholders whose names appear on the register of members on Friday, 10 September 2010. In addition, the final dividend is subject to the satisfaction of certain conditions under an amended and restated term facility agreement. And the aforementioned conditions have been satisfied as of the date of this report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 September 2010 to Friday, 10 September 2010 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 March 2010 and attending and voting at the annual general meeting, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 3 September 2010.

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 15 and 17 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 143.

SHARE CAPITAL, SHARE OPTIONS, DERIVATIVE FINANCIAL INSTRUMENTS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, derivative financial instruments and convertible bonds during the year are set out in notes 41, 42, 37 and 38 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

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 43 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 43 to the financial statements. The Company's reserves available for distribution to members at 31 March 2010 amounted to HK$1,286,318,000 (2009: Nil) comprised contributed surplus of HK$1,315,149,000 (2009: HK$34,519,000) and deficit of HK$28,831,000 (2009: HK$50,403,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. 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.

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

Non-executive Directors

Mr. Chen Guo Ru
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. Li Ji Sheng, Mr. Zhou Wen Zhi and Mr. Ong King Keung 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

As at 31 March 2010, 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 2010, 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 Long position	Number of shares Short position	Approximately percentage of shareholding in the Company
Mr. Duan Chuan Liang *(Note)*	Corporate and personal	206,100,301	–	15.52%
Mr. Chen Guo Ru	Personal	3,500,000	–	0.26%
Mr. Zhao Hai Hu	Personal	1,900,000	–	0.14%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.07%

Note: These 206,100,301 shares consist of 112,336,301 shares held by Asset Full Resources Limited of which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 93,764,000 shares held by Mr. Duan personally.

(b) **Underlying shares**

Name of Director	Capacity/ Nature of interest	Nature of shares Long position (Note)	Nature of shares Short position	Approximately percentage of shareholding in the Company Long position	Approximately percentage of shareholding in the Company Short position
Mr. Duan Chuan Liang	Personal	50,000,000	–	3.77%	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	6,500,000	–	0.49%	0%
Mr. Zhao Hai Hu	Personal	1,000,000	–	0.08%	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.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 42 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 2010, 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 2010	Price per share to be paid on exercise of options HK$	Approximate percentage of shareholding %
Mr. Duan Chuan Liang	12 January 2009	50,000,000	1.02	3.77
Mr. Li Ji Sheng	10 December 2009	1,000,000	2.85	0.08
Mr. Chen Guo Ru	10 December 2009	500,000	2.85	0.04
Mr. Wu Jiesi	29 March 2006	6,000,000	1.45	0.45
	10 December 2009	500,000	2.85	0.04
Mr. Zhao Hai Hu	10 December 2009	1,000,000	2.85	0.08
Mr. Zhou Wen Zhi	10 December 2009	500,000	2.85	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
Duan Chuan Liang	Beneficial	206,100,301	–	15.52%	0%
Asset Full Resources Limited *(Note)*	Beneficial	112,336,301	–	8.46%	0%
Atlantis Investment Management Limited	Beneficial	212,294,000	–	15.99%	0%
Zesigner Capital Group LLC	Beneficial	73,036,000	–	5.50%	0%
JP Morgan Chase & Co.	Beneficial	96,988,506	–	7.31%	0%
Norges Bank	Beneficial	95,174,000	–	7.17%	0%

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 2010, 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 TRANSACTION

On 22 September 2009, the Group entered into a sale and purchase agreement with Huizhou Investment Management Company (惠州市投資管理公司), a minority equity holder of a subsidiary of the Group, to acquire the remaining 25.62% equity interest in Huizhou Daya Bay Yiyuan Purified Water Co., Limited (惠州大亞灣溢源淨水有限公司) at consideration of RMB65,650,000 (approximately HK$74,602,000). As at 31 March 2010, a deposit of approximately HK$32,954,000 has been paid by the Group. Details of the acquisition are disclosed in the Company's announcement dated 23 September 2009.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 52 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 2010.

POST REPORTING DATE EVENTS

Details of the significant post reporting date events of the Group are set out in note 53 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, 27 July 2010

Grant Thornton
均富

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 22 to 142, which comprise the consolidated and company statement of financial position as at 31 March 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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.

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 2010 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
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

27 July 2010

Consolidated Income Statement

For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	6	**1,398,168**	1,033,199
Cost of sales		**(811,606)**	(712,430)
Gross profit		**586,562**	320,769
Other income	6	**87,116**	58,822
Selling and distribution costs		**(48,526)**	(34,745)
Administrative expenses		**(248,361)**	(195,132)
Equity-settled share options expenses		**(6,030)**	(26,666)
Other operating expenses		**(8,535)**	(4,600)
Excess over the cost of business combination recognised in profit or loss	19, 44	**68,218**	7,880
Fair value gain on investment properties		**18,600**	225,511
Fair value gain/(loss) on financial assets at fair value through profit or loss		**24,378**	(73,673)
Change in fair value of derivative financial instruments		**115,652**	38,120
Reversal of impairment/(impairment loss) on available-for-sale financial assets		**43,871**	(109,032)
Gain on repurchase of convertible bonds		**–**	187,910
Profit from operation	8	**632,945**	395,164
Finance costs	9	**(112,811)**	(85,223)
Share of results of associates		**–**	16,692
Share of result of a jointly-controlled entity		**–**	(16)
Profit before income tax		**520,134**	326,617
Income tax expense	10	**(75,431)**	(97,943)
Profit for the year		**444,703**	228,674
Profit for the year attributable to:			
Owners of the Company	11	**301,571**	115,037
Minority interests		**143,132**	113,637
		444,703	228,674
Earnings per share for profit attributable to owners of the Company during the year	13	**HK cents**	HK cents
Basic		**23.31**	9.39
Diluted		**22.73**	9.12

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	**444,703**	228,674
Other comprehensive income		
Disposal of available-for-sale financial assets	**–**	(2,203)
Change in fair value of available-for-sale financial assets	**221,433**	(122,692)
Impairment loss on available-for-sale financial assets	**–**	109,032
Currency translation	**13,577**	39,696
Other comprehensive income for the year	**235,010**	23,833
Total comprehensive income for the year	**679,713**	252,507
Total comprehensive income attributable to:		
Owners of the Company	**534,487**	137,470
Minority interests	**145,226**	115,037
	679,713	252,507

Consolidated Statement of Financial Position

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**3,063,979**	1,961,865
Prepaid land lease payments	16	**429,164**	222,813
Investment properties	17	**718,409**	670,900
Interests in associates	19	**88,149**	103,580
Interest in a jointly-controlled entity	20	**–**	13,414
Available-for-sale financial assets	21	**455,512**	513,198
Goodwill	22	**175,343**	155,126
Other intangible assets	23	**176,109**	172,771
Deposits and prepayments	24	**191,220**	119,257
		5,297,885	3,932,924
Current assets			
Properties under development	25	**166,216**	115,219
Properties held for sale	26	**1,511**	–
Inventories	27	**55,987**	46,013
Trade receivables	28	**539,000**	337,318
Amounts due from grantors for contract work	29	**94,588**	52,797
Financial assets at fair value through profit or loss	30	**53,841**	132,896
Derivative financial instruments	21(a)	**142,897**	61,984
Due from minority equity holders of subsidiaries	36	**131,566**	31,208
Prepayments, deposits and other receivables	24	**233,311**	257,404
Pledged deposits	31	**83,111**	31,587
Cash and cash equivalents	31	**522,678**	546,067
		2,024,706	1,612,493
Assets classified as held for sale	46	**453,519**	–
		2,478,225	1,612,493
Current liabilities			
Trade payables	32	**326,848**	261,134
Amounts due to customers for contract work	33	**–**	14,665
Accrued liabilities, deposits received and other payables	34	**738,173**	578,697
Borrowings	35	**636,815**	332,800
Due to minority equity holders of subsidiaries	36	**118,175**	109,497
Due to a jointly-controlled entity	20	**–**	13,970
Provision for tax		**85,520**	83,940
Derivative financial instruments	37	**3,006**	6,891
Convertible bonds	38	**257,252**	–
		2,165,789	1,401,594
Net current assets		**312,436**	210,899
Total assets less current liabilities		**5,610,321**	4,143,823

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Borrowings	35	**1,535,960**	1,011,367
Convertible bonds	38	**–**	235,530
Deferred government grants	39	**51,446**	28,309
Deferred tax liabilities	40	**196,137**	180,780
		1,783,543	1,455,986
Net assets		**3,826,778**	2,687,837
EQUITY			
Equity attributable to owners of the Company			
Share capital	41	**13,277**	12,069
Proposed final dividend	12	**39,980**	36,206
Reserves		**2,496,397**	1,827,885
		2,549,654	1,876,160
Minority interests		**1,277,124**	811,677
Total equity		**3,826,778**	2,687,837

Duan Chuan Liang
Director

Li Ji Sheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2010

	Equity attributable to owners of the Company												Minority interests	Total equity
	Share capital HK$'000	Proposed final dividend HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Other reserves HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Statutory reserves HK$'000	Retained earnings HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1 April 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
Repurchase of shares (note 41)	(329)	–	(38,129)	–	–	–	–	–	–	–	–	(38,458)	–	(38,458)
Share repurchase expenses	–	–	(271)	–	–	–	–	–	–	–	–	(271)	–	(271)
Equity-settled share option arrangements	–	–	–	–	–	–	26,666	–	–	–	–	26,666	–	26,666
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	71,029	71,029
Arising from disposal of subsidiaries	–	–	–	–	–	(65)	–	–	–	(8)	–	(73)	(913)	(986)
Capital contribution by minority equity holders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	185,725	185,725
Additional interests in subsidiaries acquired by the Group	–	–	–	–	–	–	–	(6,758)	–	–	–	(6,758)	(27,961)	(34,719)
Proposed final dividend 2009 (Note 12)	–	36,206	–	–	(36,206)	–	–	–	–	–	–	–	–	–
Transactions with owners	(329)	36,206	(38,400)	–	(36,206)	(65)	26,666	(6,758)	–	(8)	–	(18,894)	227,880	208,986
Transfer to capital redemption reserve	–	–	–	329	–	–	–	–	–	–	(329)	–	–	–
Transfer to statutory reserves	–	–	–	–	–	–	–	–	–	17,360	(17,360)	–	–	–
Total comprehensive income for the year	–	–	–	–	–	38,296	–	–	(15,863)	–	115,037	137,470	115,037	252,507
Balance at 31 March 2009 and 1 April 2009	12,069	36,206	1,135,595	341	34,519	137,862	81,354	383	–	38,280	399,551	1,876,160	811,677	2,687,837
Placing and subscription of new shares (note 41)	1,200	–	226,800	–	–	–	–	–	–	–	–	228,000	–	228,000
Share issuance expenses	–	–	(11,632)	–	–	–	–	–	–	–	–	(11,632)	–	(11,632)
Share premium reduction	–	–	(1,350,762)	–	1,350,762	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	–	–	6,030	–	–	–	–	6,030	–	6,030
Share options exercised (note 41)	8	–	1,404	–	–	–	(455)	–	–	–	–	957	–	957
Share options lapsed	–	–	–	–	–	–	(63,920)	–	–	–	63,920	–	–	–
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	232,470	232,470
Arising from disposal of subsidiaries (note 47(a))	–	–	–	–	–	(29)	–	–	–	–	–	(29)	(367)	(396)
Arising from partial disposal of a subsidiary (note 45(c))	–	–	–	–	–	–	–	(4,200)	–	–	–	(4,200)	6,465	2,265
Arising from deemed disposal of subsidiaries (note 45(a) and (b))	–	–	–	–	–	(115)	–	(13,646)	–	–	–	(13,761)	13,761	–
Capital contribution by minority equity holders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	116,455	116,455
Final dividend 2009 (note 12)	–	(36,206)	–	–	(3,600)	–	–	–	–	–	–	(39,806)	–	(39,806)
Interim dividend 2010 (note 12)	–	–	–	–	(26,552)	–	–	–	–	–	–	(26,552)	–	(26,552)
Proposed final dividend 2010 (note 12)	–	39,980	–	–	(39,980)	–	–	–	–	–	–	–	–	–
Dividend paid to minority interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(48,563)	(48,563)
Transactions with owners	**1,208**	**3,774**	**(1,134,190)**	**–**	**1,280,630**	**(144)**	**(58,345)**	**(17,846)**	**–**	**–**	**63,920**	**139,007**	**320,221**	**459,228**
Transfer to statutory reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,509**	**(12,509)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**11,483**	**–**	**–**	**221,433**	**–**	**301,571**	**534,487**	**145,226**	**679,713**
Balance at 31 March 2010	**13,277**	**39,980**	**1,405**	**341**	**1,315,149**	**149,201**	**23,009**	**(17,463)**	**221,433**	**50,789**	**752,533**	**2,549,654**	**1,277,124**	**3,826,778**

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Profit before income tax		**520,134**	326,617
Adjustments for:			
Finance costs	9	**112,811**	85,223
Share of results of associates		**–**	(16,692)
Share of result of a jointly-controlled entity		**–**	16
Interest income	6	**(11,265)**	(5,161)
Dividend income from financial assets	6	**(4,821)**	(8,901)
Amortisation of deferred government grants	6	**(2,153)**	(1,294)
Depreciation	8	**136,758**	90,621
Amortisation of prepaid land lease payments	8	**7,136**	4,956
Amortisation of other intangible assets	8	**7,574**	8,256
Amortisation of capitalised expenses		**2,283**	–
(Gain)/loss on disposal of property, plant and equipment	8	**(1,446)**	127
Property, plant and equipment written off	8	**95**	306
Gain on disposal of land use rights	8	**–**	(345)
Valuation surplus on investment properties	17	**(18,600)**	(225,511)
Equity-settled share options expenses		**6,030**	26,666
Excess over the cost of business combination recognised in profit or loss	19,44	**(68,218)**	(7,880)
Gain on disposal of subsidiaries	47(a)	**(17)**	(1,438)
Gain on deemed disposal of interest in a subsidiary		**–**	(783)
Fair value (gain)/loss on financial assets at fair value through profit or loss		**(24,378)**	73,673
Change in fair value of derivative financial instruments		**(115,652)**	(38,120)
Gain on repurchase of convertible bonds		**–**	(187,910)
Loss/(gain) on partial disposal of convertible bonds	8	**2,687**	(6,715)
(Reversal of impairment)/impairment loss on available-for-sale financial assets		**(43,871)**	109,032
Trade receivables written off	8	**1,440**	5,494
Impairment loss on amounts due from former subsidiaries	8	**–**	694
Inventories written off	8	**142**	36
Operating profit before working capital changes		**506,669**	230,967
Decrease in financial assets at fair value through profit or loss		**103,679**	41,486
Increase in properties under development		**(93,840)**	(29,623)
Decrease in properties held for sale, net		**41,332**	–
Increase in inventories		**(8,868)**	(8,279)
Increase in trade receivables		**(194,767)**	(204,294)
Increase in amounts due from grantors for contract work		**(41,791)**	(52,797)
Increase in amounts due from minority equity holders of subsidiaries		**(86,869)**	–
Increase in amounts due from former subsidiaries		**–**	(694)
Decrease/(increase) in prepayments, deposits and other receivables		**78,033**	(34,823)
Increase in trade payables		**42,925**	94,890
Decrease in amounts due to customers for contract work		**(14,665)**	(6,003)
(Decrease)/increase in accrued liabilities, deposits received and other payables		**(39,003)**	149,414
Increase in amount due to a jointly-controlled entity		**–**	4,620
Cash generated from operations		**292,835**	184,864
Interest paid for bank and other borrowings		**(91,089)**	(58,875)
Income taxes paid		**(85,937)**	(18,737)
Net cash generated from operating activities		**115,809**	107,252

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from investing activities			
Interest received		**11,265**	5,161
Dividend received		**4,821**	8,901
Purchase of property, plant and equipment		**(242,546)**	(221,655)
Proceeds from disposal of property, plant and equipment		**5,246**	4,273
Land lease payments prepaid		**(28,971)**	(25,994)
Proceeds from disposal of land use rights		**3,655**	2,955
Purchase of investment properties		**(27,536)**	(8,845)
Purchase of water supply concession rights		**(10,558)**	–
Addition of water supply concession rights		**–**	(31,966)
Deposits paid		**(95,602)**	(44,619)
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	44	**(23,106)**	(61,008)
Acquisition of minority interests		**–**	(34,719)
Disposal of subsidiaries (net of cash and cash equivalent disposed)	47(a)	**–**	(278)
Investments in associates		**(69,452)**	–
Investment in a jointly-controlled entity		**–**	(4,080)
Dividends received from associates		**–**	12,200
Purchases of available-for-sale financial assets		**(87,788)**	(41,709)
Proceeds from disposal of convertible bonds		**37,500**	39,784
(Increase)/decrease in pledged deposits		**(51,524)**	3,746
Government grants received		**25,232**	14,743
Net cash used in investing activities		**(549,364)**	(383,110)
Cash flows from financing activities			
Placing and subscription of new shares		**228,000**	–
Share issuance expenses		**(11,632)**	–
Repurchase of convertible bonds	38	**–**	(258,384)
Repurchase of shares	41	**–**	(38,458)
Share repurchase expenses		**–**	(271)
Share options exercised		**957**	–
(Repayment to)/advance from minority equity holders of subsidiaries of the Company		**(121,225)**	7,540
Drawdown of bank loans		**669,370**	506,895
Repayment of bank loans		**(372,030)**	(61,665)
Drawdown of other borrowings		**111,102**	282,224
Repayment of other borrowings		**(58,345)**	(39,704)
Dividends paid		**(66,358)**	–
Injection by minority equity holders of subsidiaries of the Company		**31,390**	–
Net cash generated from financing activities		**411,229**	398,177
Net (decrease)/ increase in cash and cash equivalents		**(22,326)**	122,319
Cash and cash equivalents at beginning of year		**546,067**	422,773
Effect of foreign exchange rates, net		**2,415**	975
Cash and cash equivalents at end of year		**526,156**	546,067
Analysis of cash and cash equivalents			
Bank and cash balances	31	**522,678**	546,067
Assets classified as held for sale	46	**3,478**	–
		526,156	546,067

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**2,469**	2,021
Interests in subsidiaries	18	**893,505**	920,382
Interest in a jointly-controlled entity	20	**–**	13,430
Available-for-sale financial assets	21	**135,124**	182,699
Deposits	24	**–**	14,503
		1,031,098	1,133,035
Current assets			
Financial assets at fair value through profit or loss	30	**1,053**	971
Due from subsidiaries	18	**595,161**	537,901
Due from minority equity holders of subsidiaries	36	**2,140**	2,140
Prepayments, deposits and other receivables	24	**13,483**	19,468
Pledged deposits	31	**63,600**	–
Cash and cash equivalents	31	**142,674**	74,027
		818,111	634,507
Assets classified as held for sale	46(b)	**182,699**	–
		1,000,810	634,507
Current liabilities			
Due to subsidiaries	18	**263,034**	207,072
Due to a jointly-controlled entity	20	**–**	13,970
Accrued liabilities and other payables	34	**62,195**	54,994
Derivative financial instruments	37	**3,006**	6,891
Convertible bonds	38	**257,252**	–
		585,487	282,927
Net current assets		**415,323**	351,580
Total assets less current liabilities		**1,446,421**	1,484,615
Non-current liabilities			
Convertible bonds	38	**–**	235,530
Net assets		**1,446,421**	1,249,085
EQUITY			
Share capital	41	**13,277**	12,069
Proposed final dividend	12	**39,980**	36,206
Reserves	43(b)	**1,393,164**	1,200,810
Total equity		**1,446,421**	1,249,085

Duan Chuan Liang
Director

Li Ji Sheng
Director

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 ordinary shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed 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 its 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 18 to the financial statements. The Company and its subsidiaries are together defined to as the "Group" hereafter.

The financial statements for the year ended 31 March 2010 were approved for issue by the board of directors on 27 July 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements 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 ("HKICPA"). 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").

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 adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost basis except for investment properties, certain financial assets and derivative financial instruments 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners.

Changes in the Group's ownership interest in a subsidiary that result in a loss of control are accounted for as gain or loss in the profit or loss.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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 statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 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.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of 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 statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Associates and jointly controlled entities

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.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, an investment in an associate or a jointly controlled entity is initially recognised at cost and subsequently accounted for using the equity method. 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 or jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. 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. 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 or jointly controlled entity's profit or loss in the period which the investment is acquired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Associates and jointly controlled entities (Continued)

Under the equity method, the Group's interest in the associate or jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's or jointly controlled entity'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 profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the year, including any impairment loss on the investment in associate or jointly controlled entity recognised for the year.

Unrealised gains on transactions between the Group and its associate and jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity. Where unrealised losses on assets sales between the Group and its associate or jointly controlled entity are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or jointly controlled entity 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 or jointly controlled entity's accounting policies to those of the Group when the associate's or jointly controlled entity's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity 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 or jointly controlled entity.

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 associate or jointly controlled entity. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate or jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs to sell) of the associate or jointly controlled entity and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or jointly controlled entity, including cash flows arising from the operations of the associate or jointly controlled entity and the proceeds on ultimate disposal of the investment.

The result of a jointly-controlled entity is included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interest in a jointly-controlled entity is treated as non-current assets and are stated at cost less any impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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 the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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.

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 reporting 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 recognised in other comprehensive income and accumulated 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 HK$ at the closing rates.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 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 profit or loss.

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 profit or loss 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:

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, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Construction in progress represents buildings 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 the construction work complete and ready for use.

2.7 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 any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2.19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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, unless it is still in the course of construction or development at the reporting date and its fair value cannot be reliably determined at that time. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised at the reporting date reflect the prevailing market conditions at the reporting date.

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

2.9 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 or jointly controlled entity is set out in note 2.4.

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 (note 2.24).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Intangible assets (other than goodwill)

Acquired intangible assets 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.

The Group's intangible assets (other than goodwill) represent up-front payments to acquire the rights to operate a sewage treatment plant and a water supply plant in the People's Republic of China excluding Hong Kong (the "PRC"). 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.

Intangible assets with finite useful lives are tested for impairment as described below in note 2.24.

2.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associate and jointly-controlled entity 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, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivative financial instruments, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Classification of financial assets (Continued)

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

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 profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.22 to these financial statements.

(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 fees that are an integral part of the effective interest rate and transaction cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Classification of financial assets (Continued)

(iii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale 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 excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

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 reporting 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Impairment of financial assets (Continued)

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

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 profit or loss of 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 profit or loss of 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 in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an 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 profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. 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 profit or loss.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Impairment of financial assets (Continued)

Financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Conversely, if the fair value of an available for sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

2.12 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.

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

2.13 Inventories and properties held for sale

Inventories and properties held for sale are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and weighted 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Service concession arrangements

Service concession arrangements are accounted for as follows if:

(i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

(ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

Infrastructure constructed by the Group under service concession arrangements is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the infrastructure to the Group. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangements are recognised at their fair value as a financial asset or an intangible asset.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public services; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial assets" in note 2.11.

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" in note 2.10.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Service concession arrangements (Continued)

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" in note 2.15.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 2.22.

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

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the sewage treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage treatment plants are recognised and measured in accordance with the policy set out for "Provisions and contingent liabilities" in note 2.20.

2.15 Construction contracts

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2.22.

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the reporting date. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the reporting date are recorded in the statement of financial position at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented as "Amounts due from customers/grantors for contract work" (an asset) or "Amounts due to customers for contract work" (a liability). Progress billings not yet paid by customers are included in the statement of financial position under "Trade receivables".

2.16 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows presentation, 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 statement of financial position, bank and cash balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.18 Financial liabilities

The Group's financial liabilities include trade payables, accrued liabilities and other payables, borrowings, amounts due to subsidiaries, minority equity holders of subsidiaries and jointly controlled entity, derivative financial instruments and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 2.26).

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 profit or loss.

(i) 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 profit or loss 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 twelve months after the reporting date.

(ii) Derivative financial instruments

Derivative financial instruments including separated embedded derivatives are measured at fair value (note 2.16).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Financial liabilities (Continued)

(iii) Convertible bonds

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 (note 2.16). 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.

(iv) Other financial liabilities

Other financial liabilities including trade payables, accrued liabilities and other payables, and amounts due to subsidiaries, minority equity holders of subsidiaries and jointly-controlled entities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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 (note 2.8).

(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 property, plant and equipment 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 leasee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 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 of the amount of the obligation 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 reporting 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.

2.21 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 share premium (net of any related income tax benefits) to the extent they are incremental costs directly attributable to the equity transaction.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services and the use by others of the Group's assets yielding interests and dividends, 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 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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(iv) Revenue from sewage treatment is recognised when services are rendered;

(v) Water supply related installation and construction income is recognised when services are rendered;

(vi) Revenue from long-term construction contracts is recognised by reference to the percentage of completion of the contract at the reporting date (note 2.15);

(vii) Dividend is recognised when the right to receive payment is established;

(viii) Finance income is recognised as it accrues using the effective interest method;

(ix) Interest income is recognised on a time-proportion basis using the effective interest method; and

(x) Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term.

2.23 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 are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets. Government grants relating to income is presented in gross under "Other income" in the statement of comprehensive income.

2.24 Impairment of non-financial assets

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

Goodwill and intangible assets with 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.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Impairment of non-financial assets (Continued)

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.

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

2.25 Employee benefits

(i) Retirement benefit obligations

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's basic salaries.

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.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 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 equity instruments 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 profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

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

2.26 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 when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

2.27 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 reporting 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 profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Accounting for income taxes (Continued)

Deferred tax is calculated using the liability method on temporary differences at the reporting 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, including existing taxable temporary differences, 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, associates and a jointly-controlled entity, 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 reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

   (i) the same taxable entity; or

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(i) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment operation and construction" segments, involves the provision of water supply and sewage treatment operation and construction services (including the transfer-operate-transfer ("TOT") and build-operate-transfer ("BOT") arrangements);

(ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation;

(iii) "Other infrastructure construction" segment involves construction of road and other municipal works; and

(iv) "All other" segment includes manufacture and sale of concrete products and other business activities.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that equity-settled share option expenses, fair value gain/loss on financial assets at fair value through profit or loss, fair value change on derivative financial instruments, finance costs, share of results of associates and jointly controlled entity, corporate income, corporate expenses, excess over the cost of business combination recognised in profit and loss, reversal of impairment loss, impairment loss on available-for-sale financial assets, income tax expense and gain on repurchase of convertible bonds.

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, financial assets at fair value through profit or loss, and interests in associates and a jointly controlled entity. Segment liabilities comprise operating liabilities and exclude items such as taxation, and corporate borrowings and other corporate liabilities.

No asymmetrical allocations have been applied to reportable segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Related parties

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

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

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

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

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

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

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

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

2.30 Assets classified as held for sale

Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets, other than financial assets as set out in note 2.11, classified as held for sale are measured at the lower of the assets' last revalued amount and fair value less costs to sell.

Impairment losses on assets held for sale are recognised in profit or loss. As long as non-current asset is classified as held for sale, the non-current asset is not depreciated and amortised.

3. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKAS 39 & HK(IFRIC) – Int 9 (Amendments)	Reassessment of embedded derivatives
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosure about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – Int 15	Agreements for the construction of real estate
Various	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 April 2008 and accordingly the third statement of financial position as at 1 April 2008 is not presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associate (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously under HKAS 14 Segment Reporting.

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. Of these, the amendment to HKAS 28 Investments in Associates has changed the Group's accounting policies on allocation of impairment losses but did not have any impact of the current period results and financial position.

The amendment clarifies that an investment in associate accounted for under the equity method is a single asset for the purposes of impairment testing. Any impairment loss recognised by the investor after applying the equity method is not allocated to individual assets including goodwill included in the investment balance. Accordingly, any reversal of such impairment losses in a subsequent period is recognised to the extent that the recoverable amount of the associate has increased.

In prior years, the Group allocated the impairment loss initially to goodwill included as part of the investment balance. According to the Group's accounting policies on goodwill, no reversals of impairment losses attributed to the carrying amount of goodwill would have been recognised in subsequent periods.

The new policy also applies to the Group's investment in the jointly controlled entity, which is accounted for under the equity method in the consolidated financial statements.

For the current period, there were no impairment losses recognised and no reversals of impairment losses recognised in prior periods on investments in associates and a jointly controlled entity. The adoption of this new policy has no impact on the current period results and financial position therefore. The new accounting policy has been applied prospectively as permitted by the amendment and comparatives have not been restated.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

3. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

Annual improvements to HKFRSs 2008 (Continued)

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business Combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

Annual improvements to HKFRSs 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 April 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principals in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 April 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors of the Company are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

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 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:

(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 notes 2.6, 2.7 and 2.10 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) Allowance for and written off of irrecoverable receivables

The Group's management determines the allowance for irrecoverable receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. When the Group's management determines that there are indicators of significant financial difficulties of the debtors such as default or delinquency in payments, allowance for debtors are estimated. The management of the Group reassesses the estimations at the reporting date.

When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for debtors. Any amounts held in the allowance account in respect of those debtors are reversed.

(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 2.9. 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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) Estimate fair value of investment properties

The best evidence of fair value is current prices in an active market for similar property in the same location and condition and subject to 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.

(vii) Construction contracts

As explained in accounting policies stated in notes 2.15 and 2.22, revenue and profit recognition on an uncompleted project (including the Group's BOT arrangements) 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 reporting date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts record to date.

(viii) 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(ix) 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.

(x) Classification between financial assets and/or intangible assets under HK(IFRIC) – Int 12 Service Concession Arrangements

As explained in note 2.14, the Group recognises the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition.

(xi) Valuation for derivative financial instruments

The fair values of 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 transaction date and each reporting date with reference to the valuation performed by CB Richard Ellis Limited, an independent firm of professional valuers. 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.

(xii) Fair value of financial assets at fair value through profit or loss and available-for-sale financial assets

The best evidence of fair value is the published price quotations in an active market. In the absence of such information, the fair value is determined by an independent professional valuer. Such valuation is subject to limitations of the valuation models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including share prices, deposit rates, spot rates, risk-free rates, volatility and the relevant parameters of the valuation model be changed, there would be material changes in the fair value of certain financial instruments without quoted prices.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(xiii) Unlisted equity instruments

HKAS 39 precludes the Group from measuring equity instruments at fair value, if the fair value of investment in equity instruments that do not have a quoted market price in an active market is not reliably measureable. In making this judgement, the Group considers the following information:

– the variability in the range of reasonable fair value estimates is significant for that instrument; or

– the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

5. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain government authorities in the PRC on a BOT or TOT basis in respect of its water supply and sewage treatment businesses. These service concession arrangements generally involve the Group as an operator (i) constructing water supply and sewage treatment plants for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the water supply and sewage treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 25 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the relevant Service Concession Periods at prices stipulated through a pricing mechanism.

The Group is generally entitled to use all the property, plant and equipment of the water supply and sewage treatment plants, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the water supply and sewage treatment plants, and retain the beneficial entitlement to any residual interest in the water supply and sewage treatment plants at the end of the term of the Service Concession Periods.

Each of these service concession arrangements is governed by a contract and, where applicable, supplemental agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the water supply and sewage treatment plants to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

5. SERVICE CONCESSION ARRANGEMENTS (Continued)

As at 31 March 2010, the Group had five service concession arrangements on water supply and sewage treatment businesses in the PRC and a summary of the major terms of these service concession arrangements are set out as follows:

Name of subsidiary as operator	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity per day (m^3)	Service concession period
鉛山縣銀龍水務有限公司 ("鉛山銀龍")	PRC	鉛山縣建設局	BOT & TOT	12,000	June 2007 – June 2037
鉛山縣中水環保有限公司 ("鉛山中水")	PRC	鉛山縣建設局	BOT	10,500	February 2009 – February 2039
萬年縣中水環保有限公司 ("萬年中水")	PRC	萬年市人民政府	BOT	15,000	December 2008 – December 2037
分宜中水環保有限公司 ("分宜中水")	PRC	分宜縣建設局	BOT	10,000	March 2008 – March 2038
荊州中水環保有限公司 ("荊州中水")	PRC	荊州市建設委員會	TOT	100,000	December 2006 – December 2031

6. REVENUE AND OTHER INCOME

The Group's principal activities are disclosed in notes 1 and 18 to these financial statements.

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

	2010 HK$'000	2009 HK$'000
Revenue:		
Sales of goods	**121,329**	89,728
Sales of properties	**50,130**	–
Water supply operation services	**632,532**	379,548
Water supply construction services – intangible assets	**10,558**	31,966
Water supply related installation	**251,606**	239,043
Sewage treatment operation services	**35,499**	29,586
Sewage treatment construction services – financial assets	**40,964**	52,024
Other infrastructure construction services	**228,682**	191,920
Hotel and rental income	**7,611**	8,070
Finance income	**1,932**	773
Others	**17,325**	10,541
Total	**1,398,168**	1,033,199
Other income:		
Interest income	**11,265**	5,161
Government grants and subsidies #	**56,276**	19,670
Amortisation of deferred government grants	**2,153**	1,294
Gain on disposal of land use rights	**–**	345
Gain on disposal of convertible bonds	**–**	6,715
Gain on disposal of subsidiaries	**–**	1,438
Dividend income from financial assets	**4,821**	8,901
Miscellaneous income	**12,601**	15,298
Total	**87,116**	58,822

Government grants and subsidies mainly comprised unconditional subsidies for subsidising the Group's water supply and infrastructure construction business.

7. SEGMENT INFORMATION

The executive directors have identified the Group's five product and service lines as operating segments as further described in Note 2.28.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating result.

For the year ended 31 March 2010

	City water supply operation and construction HK$'000	Sewage treatment operation and construction HK$'000	Property development and investment HK$'000	Other infrastructure construction HK$'000	All other HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue							
From external customers	907,767	78,395	50,130	228,682	133,194	–	1,398,168
From inter-segment	57,756	–	4,389	–	100,184	(162,329)	–
Reportable segment revenue	965,523	78,395	54,519	228,682	233,378	(162,329)	1,398,168
Reportable segment profit	270,730	18,796	21,153	88,764	55,484	–	454,927
Unallocated corporate income							24,474
Unallocated corporate expense							(92,545)
Equity-settled share option expenses							(6,030)
Excess over the cost of business combination recognised in profit or loss							68,218
Fair value gain on financial assets at fair value through profit or loss							24,378
Change in fair value of derivative financial instruments							115,652
Reversal of impairment loss on available-for-sale financial assets							43,871
Finance costs							(112,811)
Profit before income tax							520,134
Income tax expense							(75,431)
Profit for the year							444,703
Other reportable segment information							
Addition of an investment property	–	–	27,536	–	–	–	27,536
Additions to other non-current segment assets	260,477	12,472	82,932	3,030	11,773	–	370,684
Amortisation of deferred government grants	(1,918)	(235)	–	–	–	–	(2,153)
Amortisation of other intangible assets	1,665	5,909	–	–	–	–	7,574
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	132,891	357	91	224	10,331	–	143,894
Property, plant and equipment written off	95	–	–	–	–	–	95
Gain on disposal of property, plant and equipment	(1,446)	–	–	–	–	–	(1,446)
Fair value gain on investment properties	–	–	(18,600)	–	–	–	(18,600)
Trade receivables written off	1,440	–	–	–	–	–	1,440
Inventories written off	142	–	–	–	–	–	142

7. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2010 (Continued)

	City water supply operation and construction HK$'000	Sewage treatment operation and construction HK$'000	Property development and investment HK$'000	Other infrastructure construction HK$'000	All other HK$'000	Total HK$'000
Reportable segment assets	**4,273,745**	**231,527**	**1,078,711**	**480,838**	**171,775**	**6,236,596**
Other financial assets						652,250
Interests in associates						88,149
Other corporate assets						799,115
						7,776,110
Reportable segment liabilities	**693,354**	**22,301**	**116,866**	**166,755**	**60,000**	**1,059,276**
Deferred tax liabilities						196,137
Provision for tax						85,520
Other corporate liabilities						2,608,399
						3,949,332

For the year ended 31 March 2010, 16% of Group's total revenue was attributable to other infrastructure construction services revenue from one customer of HK$228,682,000.

7. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2009

	City water supply operation and construction HK$'000	Sewage treatment operation and construction HK$'000	Property development and investment HK$'000	Other infrastructure construction HK$'000	All other HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Revenue							
From external customers	656,903	82,383	–	191,920	101,993	–	1,033,199
From inter-segment	22,677	–	–	–	51,066	(73,743)	–
Reportable segment revenue	679,580	82,383	–	191,920	153,059	(73,743)	1,033,199
Reportable segment profit	142,839	16,818	225,419	36,075	10,352	–	431,503
Unallocated corporate income							24,958
Unallocated corporate expenses							(85,836)
Equity-settled share option expenses							(26,666)
Excess over the cost of business combination recognised in profit or loss							7,880
Fair value loss on financial assets at fair value through profit or loss							(73,673)
Change in fair value of derivative financial instruments							38,120
Impairment loss on available-for-sale financial assets							(109,032)
Gain on repurchase of convertible bonds							187,910
Finance costs							(85,223)
Share of results of associates							16,692
Share of result of a jointly-controlled entity							(16)
Profit before income tax							326,617
Income tax expense							(97,943)
Profit for the year							228,674
Other reportable segment information							
Additions of investment properties	–	–	225,716	–	–	–	225,716
Additions to other non-current segment assets	352,735	2,897	264	1,867	5,087	–	362,850
Amortisation of deferred government grants	(1,274)	(20)	–	–	–	–	(1,294)
Amortisation of other intangible assets	2,359	5,897	–	–	–	–	8,256
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	87,089	291	19	107	8,071	–	95,577
Impairment loss on amounts due from former subsidiaries	694	–	–	–	–	–	694
Property, plant and equipment written off	211	–	–	–	95	–	306
(Gain)/loss on disposal of property, plant and equipment	(11)	–	–	–	138	–	127
Gain on disposal of land use rights	(345)	–	–	–	–	–	(345)
Fair value gain on investment properties	–	–	(225,511)	–	–	–	(225,511)
Trade receivables written off	3,721	–	–	–	1,773	–	5,494
Inventories written off	36	–	–	–	–	–	36

7. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2009 (Continued)

	City water supply operation and construction HK$'000	Sewage treatment operation and construction HK$'000	Property development and investment HK$'000	Other infrastructure construction HK$'000	All other HK$'000	Total HK$'000
Reportable segment assets	2,657,931	212,849	790,490	294,024	141,507	4,096,801
Other financial assets						708,078
Interest in an associate						103,580
Interest in a jointly controlled entity						13,414
Other corporate assets						623,544
						5,545,417
Reportable segment liabilities	514,470	34,748	42,188	196,041	38,636	826,083
Deferred tax liabilities						180,780
Provision for tax						83,940
Other corporate liabilities						1,766,777
						2,857,580

For the year ended 31 March 2009, 19% of the Group's total revenue was attributable to other infrastructure construction services revenue from one customer of HK$191,920,000.

The Group's revenues from external customers and its non-current assets by geographical areas are not presented as the geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

8. PROFIT FROM OPERATION

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

	2010 HK$'000	2009 HK$'000
Cost of inventories sold	**811,606**	712,430
Depreciation	**136,758**	90,621
Amortisation of prepaid land lease payments	**7,136**	4,956
Amortisation of other intangible assets	**7,574**	8,256
Operating leases in respect of		
– leasehold land and buildings	**7,892**	7,824
– other property, plant and equipment	**17,025**	4,839
Auditors' remuneration	**5,300**	5,350
Staff costs (excluding directors' emoluments – note 14(a)):		
Salaries and wages	**165,539**	133,772
Equity-settled share option expenses	**4,523**	12,304
Retirement scheme contribution	**1,423**	611
	171,485	146,687
(Gain)/loss on disposal of property, plant and equipment	**(1,446)**	127
Gain on disposal of land use rights	**–**	(345)
Loss/(gain) on partial disposal of convertible bonds	**2,687**	(6,715)
Property, plant and equipment written off	**95**	306
Inventories written off	**142**	36
Trade receivables written off	**1,440**	5,494
Impairment loss on amounts due from former subsidiaries	**–**	694
Net foreign exchange gain	**(4,702)**	(672)

9. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank loans		
– wholly repayable within five years	**82,685**	26,532
– not wholly repayable within five years	**3,378**	13,599
Interest on other borrowings		
– wholly repayable within five years	**20,060**	10,050
– not wholly repayable within five years	**3,174**	8,694
Interest on convertible bonds	**21,722**	40,095
Total borrowing costs	**131,019**	98,970
Less: interest capitalised included in property, plant and equipment (Note)	**(18,208)**	(13,747)
	112,811	85,223

Note: Included in construction-in-progress under property, plant and equipment is accumulated interest capitalised of HK$40,977,000 (2009: HK$22,769,000) at the capitalisation rates ranging from of 5.9% to 7.8% (2009: 5.9% to 7.8%).

10. INCOME TAX EXPENSE

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

	2010 HK$'000	2009 HK$'000
Current		
– PRC	**82,799**	35,599
Deferred (note 40)		
– Current year	**(7,368)**	62,344
Total income tax expense	**75,431**	97,943

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

10. INCOME TAX EXPENSE (Continued)

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

	2010	2009
	HK$'000	HK$'000
Profit before income tax	**520,134**	326,617
Tax at applicable rate of 16.5% (2009: 16.5%)	**85,822**	53,892
Tax effect of non-taxable items	**(92,979)**	(39,421)
Tax effect of non-deductible items	**70,241**	56,094
Tax concession	**(36,250)**	(24,431)
Others	**12,212**	(4,978)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**36,385**	56,787
Income tax expense	**75,431**	97,943

(c) At 31 March 2010, the Group has unused tax losses of HK$61,054,000 (2009: HK$64,483,000) available for offsetting against future taxable profits of the companies which incurred these losses. Deferred tax assets have not been recognised in respect of these tax losses due to the unpredictability of future profit streams.

(d) At 31 March 2010, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is HK$12,029,000 (2009: HK$7,802,000). No deferred tax liabilities have been recognised in respect of these temporary 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.

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit for the year attributable to the owners of the Company of HK$301,571,000 (2009: HK$115,037,000), a loss of HK$42,348,000 (2009: profit of HK$178,433,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

(a) Dividends attributable to the year

	2010 HK$'000	2009 HK$'000
Proposed final dividend		
– HK$0.03 (2009: HK$0.03) per ordinary share	**39,980**	36,206
Interim dividend		
– HK$0.02 (2009: HK$Nil) per ordinary share	**26,552**	–
	66,532	36,206

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the year ended 31 March 2010. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting and the satisfaction of certain conditions set out in the amended loan agreement (note 35(iv)). As of the date of this report, those conditions set out in the amended loan agreement have been satisfied.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2010 HK$'000	2009 HK$'000
Final dividend in respect of the previous financial year of HK$0.03 (2009: HK$Nil) per ordinary share	**36,206**	–
Adjustment to 2009 final dividend (Note)	**3,600**	–
	39,806	–

Note: The adjustment was due to placing and subscription of new shares prior to the record date of the 2009 final dividend and, therefore, the related shares rank for this dividend payment.

13. EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$301,571,000 (2009: HK$115,037,000) and the weighted average of 1,293,977,152 (2009: 1,224,661,305) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2010, the Company's warrants and potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company 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 owners of the Company of HK$301,571,000 and on the weighted average of 1,326,720,048 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,293,977,152 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 32,742,896.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2009, the Company's warrants 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 owners of the Company of HK$115,037,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was HK$118,315,000 and on the weighted average of 1,297,084,520 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,224,661,305 used in basic earnings per share calculation and adjusted for the effect of share options and deemed exercise or conversion of convertible bonds existing during the year of 72,423,215.

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

	Directors' 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
2010						
Executive directors						
Mr. Duan Chuan Liang	–	6,188	6,000	–	12	12,200
Mr. Li Ji Sheng	–	506	272	431	–	1,209
Non-executive directors						
Mr. Chen Guo Ru	–	180	–	215	–	395
Mr. Zhao Hai Hu	–	435	–	431	–	866
Mr. Zhou Wen Zhi	–	120	–	215	–	335
Mr. Wu Jiesi	–	60	–	215	–	275
Independent non-executive directors						
Ms. Huang Shao Yun	24	–	–	–	–	24
Mr. Chau Kam Wing, Donald	348	–	–	–	–	348
Mr. Ong King Keung	300	–	–	–	–	300
Ms. Liu Dong	72	–	–	–	–	72
	744	**7,489**	**6,272**	**1,507**	**12**	**16,024**
2009						
Executive directors						
Mr. Duan Chuan Liang	–	4,999	20,000	12,272	12	37,283
Mr. Li Ji Sheng	–	464	433	550	–	1,447
Non-executive directors						
Mr. Chen Guo Ru	–	180	–	275	–	455
Mr. Zhao Hai Hu	–	373	5	440	–	818
Mr. Zhou Wen Zhi	–	120	–	275	–	395
Mr. Wu Jiesi	–	60	–	550	–	610
Independent non-executive directors						
Ms. Huang Shao Yun	24	–	–	–	–	24
Mr. Chau Kam Wing, Donald	312	–	–	–	–	312
Mr. Ong King Keung	260	–	–	–	–	260
Ms. Liu Dong	72	–	–	–	–	72
	668	6,196	20,438	14,362	12	41,676

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

(a) Directors' emoluments (Continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

Details of the share options granted to directors of the Company are set out in note 42 to the financial statements.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included one director (2009: two directors), details of whose emoluments have been disclosed in note (a) above. The emoluments paid to the remaining individuals during the year are as follows:

	2010 HK$'000	2009 HK$'000
Salaries, allowances and other benefits	**21,214**	15,586
Employee share-based compensation expenses	**2,369**	2,860
Retirement scheme contribution	**36**	12
	23,619	18,458

The enrolments fell within the following bands:

	2010	2009
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**–**	–
Over HK$2,500,000	**1**	1

During the year ended 31 March 2010 and 2009, 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.

15. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Water pipelines HK$'000	Furniture, equipment and motor vehicles HK$'000	Vessels HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 April 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 carrying amount	303,247	9,036	153,941	674,056	30,086	15,945	117,742	1,304,053
Year ended 31 March 2009								
Opening net carrying amount	303,247	9,036	153,941	674,056	30,086	15,945	117,742	1,304,053
Additions	2,890	60	58,384	43,317	12,025	–	188,087	304,763
Acquisition of subsidiaries (note 44)	46,128	–	8,116	20,619	1,407	–	339,273	415,543
Disposal of subsidiaries (note 47(a))	–	–	(332)	–	(201)	–	–	(533)
Disposals	(2,042)	–	(994)	(497)	(867)	–	–	(4,400)
Written off	(210)	–	–	–	–	(96)	–	(306)
Transfers	247,259	–	114,914	66,430	1,526	–	(430,129)	–
Depreciation	(18,650)	(2,517)	(19,617)	(40,607)	(7,481)	(1,749)	–	(90,621)
Exchange realignment	7,155	213	3,632	15,900	690	378	5,398	33,366
Closing net carrying amount	585,777	6,792	318,044	779,218	37,185	14,478	220,371	1,961,865
At 31 March 2009 and 1 April 2009								
Cost	625,749	14,008	368,926	877,916	52,506	18,340	220,371	2,177,816
Accumulated depreciation	(39,972)	(7,216)	(50,882)	(98,698)	(15,321)	(3,862)	–	(215,951)
Net carrying amount	585,777	6,792	318,044	779,218	37,185	14,478	220,371	1,961,865
Year ended 31 March 2010								
Opening net carrying amount	585,777	6,792	318,044	779,218	37,185	14,478	220,371	1,961,865
Additions	76,671	2,219	7,923	40,161	10,788	93	144,995	282,850
Acquisition of subsidiaries (note 44)	82,307	1,582	79,062	214,965	4,730	–	571,232	953,878
Disposals	(1,596)	–	(326)	(1,618)	(260)	–	–	(3,800)
Written off	–	–	–	–	(95)	–	–	(95)
Transfers	37,400	277	11,022	620,537	90	–	(669,326)	–
Depreciation	(27,150)	(3,128)	(27,487)	(67,496)	(9,742)	(1,755)	–	(136,758)
Exchange realignment	1,344	17	810	2,035	84	29	1,720	6,039
Closing net carrying amount	**754,753**	**7,759**	**389,048**	**1,587,802**	**42,780**	**12,845**	**268,992**	**3,063,979**
At 31 March 2010								
Cost	823,281	18,116	465,601	1,754,409	67,765	18,470	268,992	3,416,634
Accumulated depreciation	(68,528)	(10,357)	(76,553)	(166,607)	(24,985)	(5,625)	–	(352,655)
Net carrying amount	**754,753**	**7,759**	**389,048**	**1,587,802**	**42,780**	**12,845**	**268,992**	**3,063,979**

15. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY (Continued)

Company

	Leasehold improvements HK$'000	Furniture, equipment and motor vehicles HK$'000	Total HK$'000
At 1 April 2008			
Cost	–	2,542	2,542
Accumulated depreciation	–	(399)	(399)
Net carrying amount	–	2,143	2,143
Year ended 31 March 2009			
Opening net carrying amount	–	2,143	2,143
Additions	–	168	168
Depreciation	–	(333)	(333)
Exchange realignment	–	43	43
Closing net carrying amount	–	2,021	2,021
At 31 March 2009 and 1 April 2009			
Cost	–	2,760	2,760
Accumulated depreciation	–	(739)	(739)
Net carrying amount	–	2,021	2,021
Year ended 31 March 2010			
Opening net carrying amount	–	2,021	2,021
Additions	277	684	961
Written off	–	(95)	(95)
Depreciation	(37)	(385)	(422)
Exchange realignment	–	4	4
Closing net carrying amount	**240**	**2,229**	**2,469**
At 31 March 2010			
Cost	277	3,362	3,639
Accumulated depreciation	(37)	(1,133)	(1,170)
Net carrying amount	**240**	**2,229**	**2,469**

Notes:

(a) The Group's buildings included above are held under medium term leases in the PRC.

(b) As at 31 March 2010, the Group's property, plant and equipment at the net carrying amount of HK$101,026,000 (2009: HK$95,480,000) were pledged to secure banking facilities granted to the Group (note 35(i)(c)).

16. PREPAID LAND LEASE PAYMENTS – GROUP

	2010 HK$'000	2009 HK$'000
At beginning of the year		
Cost	**232,088**	196,463
Accumulated amortisation	**(9,275)**	(4,311)
Net carrying amount	**222,813**	192,152
For the year ended		
Opening net carrying amount	**222,813**	192,152
Acquisition of subsidiaries (note 44)	**139,403**	33,706
Additions	**77,276**	25,994
Disposals	**(3,655)**	(28,616)
Amortisation	**(7,136)**	(4,956)
Exchange realignment	**463**	4,533
Net carrying amount	**429,164**	222,813
At end of the year		
Cost	**445,021**	232,088
Accumulated amortisation	**(15,857)**	(9,275)
Net carrying amount	**429,164**	222,813

The Group's prepaid land lease payments represent up-front payments to acquire interest in the usage of land situated in the PRC, which are held under medium term leases (2009: medium term leases).

As at 31 March 2010, the Group's prepaid land lease payments included certain land use rights with a net carrying amount of HK$6,753,000 (2009: HK$46,367,000) 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 rights to use these lands. As confirmed by the Group's legal advisers, there is no legal impediment for the Group to obtain these land use rights certificates.

As at 31 March 2010, the Group's prepaid land lease payments with a net carrying amount of HK$16,998,000 (2009: HK$8,584,000) were pledged to secure banking facilities granted to the Group (note 35(i)(d)).

17. INVESTMENT PROPERTIES – GROUP

	2010 HK$'000	2009 HK$'000
Carrying amount at beginning of the year	**670,900**	276,978
Additions	**27,536**	225,716
Transfer to properties under development	**–**	(63,336)
Fair value gain	**18,600**	225,511
Exchange realignment	**1,373**	6,031
Carrying amount at end of the year	**718,409**	670,900

Investment properties represent various land use rights located in the PRC held for long term capital appreciation. The land use rights of these investment properties will expire ranging from year 2046 to 2079.

As at 31 March 2010, the investment properties included certain land use rights with a carrying amount of approximately HK$99,773,000 (2009: HK$293,604,000) 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 rights to use these lands pursuant to the relevant government approval documents. As confirmed by the Group's legal advisers, there is no legal impediment for the Group to obtain these land use rights certificates.

Investment properties were revalued on 31 March 2010 by CB Richard Ellis Limited, an independent firm of professional valuers on an open market 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. Valuations were based on market evidence of recent transaction prices for similar properties and adjusted for the differences.

As at 31 March 2010, the Group's investment properties with a carrying amount of approximately HK$229,332,000 (2009: HK$147,426,000) were pledged to secure banking facilities granted to the Group (note 35(i)(e)).

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	**893,505**	920,382
Due from subsidiaries	**619,373**	562,113
Less: Provision for impairment	**(24,212)**	(24,212)
Due within one year included under current assets	**595,161**	537,901
Due to subsidiaries	**(263,034)**	(207,072)

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2010 are as follows:

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Bright Orient Limited ("Bright Orient") (i) (note 44(b))	BVI/Hong Kong	50,000 shares of US$1 each	–	100%	Investment holding
Hong Kong Water Affairs Investments Limited	Hong Kong	1 share of HK$1	–	100%	Investment holding
China Water Group (HK) Limited ("CW Group (HK)")	BVI/Hong Kong	1 share of US$1	100%	–	Investment holding
Sharp Profit Investments Limited	BVI/Hong Kong	1 share of US$1	100%	–	Investment holding
Good Outlook Investments Limited	BVI/Hong Kong	1 share of US$1	100%	–	Investment holding
Oceanup Investments Limited	BVI/Hong Kong	1 share of US$1	100%	–	Investment holding
China Water Supply Group Limited	Hong Kong	2 shares of HK$1 each	–	100%	Investment holding
China Hydropower Development Limited ("China Hydropower")	BVI/Hong Kong	1 share of US$1	–	100%	Investment holding
China Kolon Water Management Company Limited ("China Kolon") (note 44(e))	Hong Kong	2,633,333,300 shares of HK$0.01 each	51%	–	Investment holding
Ming Hing Waterworks Engineering (PRC) Limited ("Ming Hing")	BVI/Hong Kong	100 shares of US$1 each	–	100%	Investment holding
長沙(中國水務)有限公司* ("長沙(中國水務)")	PRC	Registered capital of RMB40,000,000	–	90% (2009: 100%)	Water supply and water supply infrastructure
荊州水務集團有限公司*	PRC	Registered capital of US$60,589,200	36.9% (2009: 36.5%)	14.1% (2009: 14.5%)	Water supply

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2010 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
荊州水務鼎鑫源工程有限公司^	PRC	Registered capital of RMB20,000,000 (2009: RMB1,200,000)	–	51%	Water supply infrastructure
荊州水務泉鑫物資貿易有限公司^	PRC	Registered capital of RMB800,000	–	51%	Trading of water supply materials
荊州中水#	PRC	Registered capital of US$8,200,000	100%	–	Sewage treatment
江陵銀龍水務有限公司*	PRC	Registered capital of US$2,580,000	67.8% (2009: 100%)	32.2% (2009: Nil)	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
重慶僑立管道制造有限公司 (“重慶僑立管道”)^ (i) (note 44(a))	PRC	Registered capital of RMB13,000,000	–	100%	Trading and manufacturing of water pipelines
江西萬年銀龍水務有限責任公司*	PRC	Registered capital of US$35,090,000 (2009: US$30,090,000)	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
鉛山銀龍#	PRC	Registered capital of RMB18,000,000	–	100%	Water supply operation and construction

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2010 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
鉛山中水#	PRC	Registered capital of US$2,000,000	100%	–	Sewage treatment operation and construction
分宜中水* (note 45(b))	PRC	Registered capital of RMB6,000,000	–	53.45% (2009: 60%)	Sewage treatment operation and construction
萬年中水# (note 45(b))	PRC	Registered capital of US$3,000,000	5% (2009: 100%)	48.45% (2009: Nil)	Sewage treatment operation and construction
上海倍臣水務發展有限公司("上海倍臣")^	PRC	Registered capital of RMB167,600,000 (2009: RMB90,000,000)	–	100%	Investment holding
上海銀龍水務投資有限公司 ("上海銀龍水務")^ (ii) (note 45(a))	PRC	Registered capital of RMB500,000,000	–	95%	Investment holding
江河水務有限公司("江河水務")^	PRC	Registered capital of RMB225,000,000	–	95% (2009: 100%)	Investment holding
江河港武水務(常州)有限公司 ("江河港武")^ (iii) (note 44(d))	PRC	Registered capital of RMB237,000,000	–	38%	Water supply
北京江河旋龍水泵技術有限公司^ ("江河旋龍")	PRC	Registered capital of RMB3,000,000	–	95% (2009: 100%)	Water pump technology development
海南興水城鄉供水有限公司^	PRC	Registered capital of RMB15,830,000	–	54% (2009: 56%)	Water supply

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2010 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
新余仙女湖新城開發有限公司 ("新城開發")*	PRC	Registered capital of RMB100,000,000	15% (2009: 40%)	43% (2009: 18%)	Development and infrastructure of sightseeing area
新余水務置業有限責任公司*	PRC	Registered capital of RMB20,000,000	–	54%	Property development and investment
新余市銀龍機電科技有限公司 (formerly known as 新余市銀龍電氣設備工程有限公司)^ (iii)	PRC	Registered capital of RMB2,000,000 (2009: RMB200,000)	–	31.2% (2009: 60%)	Water supply infrastructure
新余仙女湖新城房地產開發有限公司^ (ii)	PRC	Registered capital of RMB20,000,000	–	58%	Property development and investment
新余市綠楓園林設計有限責任公司^ (ii)	PRC	Registered capital of RMB500,000	–	30.6%	Landscape design and engineering
新余市格林園林有限公司^	PRC	Registered capital of RMB10,000,000	–	30.6%	Landscape design and engineering
高安水務有限公司(formerly known as 高安水務集團有限公司) *	PRC	Registered capital of RMB60,000,000	60%	–	Water supply

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2010 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
分宜銀龍水務有限公司^	PRC	Registered capital of RMB25,000,000	–	100%	Water supply
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(“河南銀龍”)#	PRC	Registered capital of RMB140,833,077 (2009: RMB150,000,000)	–	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(“河南銀龍(西華)”)*	PRC	Registered capital of RMB14,000,000	–	100%	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
周口銀龍置業有限公司^ (ii)	PRC	Registered capital of RMB8,000,000	–	70%	Property development
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
江門市粵南供水消防工程有限公司^ (iii)	PRC	Registered capital of RMB3,000,000	–	50%	Fire work installation
廣東新會水務有限公司* (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*	PRC	Registered capital of RMB100,000,000	20% (2009: 70%)	50% (2009: Nil)	Water supply and water supply infrastructure

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2010 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	
惠州大亞灣溢源淨水有限公司 ("大亞灣溢源")^ (iii)	PRC	Registered capital of RMB11,710,000	–	41.85%	Water supply and water supply infrastructure
北京上河元酒店有限公司 ("北京上河元")^ (i) (note 44(c))	PRC	Registered capital of RMB171,600,000	–	80.65%	Property investment
上栗銀龍水務有限公司^ (ii)	PRC	Registered capital of RMB14,500,000	–	60%	Water supply and water supply infrastructure
寧鄉中水市政工程有限公司^ (ii)	PRC	Registered capital of RMB5,000,000	–	90%	Water supply infrastructure
寧鄉水務置業有限公司^ (ii)	PRC	Registered capital of RMB20,000,000	–	90%	Property investment

* 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 2010
(ii) incorporated/established/injected during the year ended 31 March 2010
(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.

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.

19. INTERESTS IN ASSOCIATES – GROUP

	2010 HK$'000	2009 HK$'000
Share of net assets	**88,149**	103,580

For the associates acquired during the year, there was excess over the cost of business combination recognised in profit or loss amounted to HK$18,560,000 (2009: Nil).

During the year, 江河港武 became a subsidiary of the Company. Details have been set out in note 44(d) to the financial statements.

Particulars of the associates as at 31 March 2010, all of which were acquired during the year, are as follow:

Name	Place of establishment	Particulars of registered capital	Held by subsidiary	Group's effective interest held	Profit sharing	Principal activities
梧州粵海江河水務有限公司	PRC	Registered capital of RMB110,000,000	49%	46.55%	46.55%	Water supply
梧州市建標水表檢定中心	PRC	Registered capital of RMB100,000	49%	46.55%	46.55%	Water meter technology development
廣西梧州自來水工程有限公司	PRC	Registered capital of RMB5,000,000	49%	46.55%	46.55%	Water supply infrastructure

The aggregated amounts of financial information of the Group's associates as extracted from their financial statements is as follows:

	2010 HK$'000	2009 HK$'000
Assets	**243,283**	1,002,239
Liabilities	**63,387**	738,441
Revenue	**–**	120,030
Profit	**–**	38,818

The Group has not incurred any contingent liabilities or other commitments relating to its investments in the associates.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share of net assets	–	13,414	–	13,430

During the year, China Kolon became a subsidiary of the Company. Details have been set out in note 44(e) to the financial statements.

As at 31 March 2009, the amount due to a jointly-controlled entity was unsecured, interest-free and repayable on demand.

Summary of financial information of the jointly-controlled entity for the year ended 31 March 2009 as extracted from their financial statements is as follows:

	Group and Company
	2009
	HK$'000
Non-current assets	4,656
Current assets	21,646
	26,302
Other income	32
Total expenses	(63)
Loss after income tax	(31)

The Group has not incurred any contingent liabilities or other commitments relating to its jointly controlled entity.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted debt securities in Hong Kong, at fair value (note (a))	**106,734**	56,497	**–**	–
Listed equity securities in Hong Kong, at fair value (note (b))	**317,553**	13,300	**126,033**	–
Unlisted equity securities outside Hong Kong, at cost (notes (b) and (c))	**31,225**	443,401	**9,091**	182,699
	455,512	513,198	**135,124**	182,699

Notes:

(a) The Group held the convertible bonds issued by China Water Property Group Limited ("Water Property") (formerly known as China Botanic Development Holdings Limited) with a principal amount of HK$180,050,000 (the "Water Property Convertible Bonds") which are due on 13 November 2017 and are convertible into fully paid ordinary shares of Water Property 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. On 27 October 2009, the conversion price was adjusted to HK$0.045. The Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the Water Property Convertible Bonds does not trigger a mandatory offer obligation under The Hong Kong Code on Takeovers and Mergers. The Water Property Convertible Bonds can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date.

The Water Property Convertible Bonds are separated into two components: the debt element and the conversion options element. The Group has classified the debt element of the Water Property Convertible Bonds as available-for-sale financial assets and the conversion options element of the Water Property Convertible Bonds as derivative financial instruments included in financial assets at fair value through profit or loss.

The fair value of the debt element was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to instruments of similar terms. The effective interest rates of the debt element at 31 March 2010 ranged from 5.01% to 7.47%. The fair values of the debt element have been determined by CB Richard Ellis Limited, an independent firm of professional valuers.

The fair value of 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 on Binomial model basis.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP AND COMPANY (Continued)

Notes (Continued):

(a) (Continued)

The major inputs used in the model are as follows:

	2010	2009
Stock price	**HK$0.165**	HK$0.099
Expected volatility	**95.30%**	90.16%
Risk free rate	**2.589%**	1.823%
Expected dividend yield	**Nil**	Nil

The carrying amounts of the debt element and conversion options element of the Water Property Convertible Bonds are as follows:

	Debt element – Unlisted debt securities HK$'000	**Conversion options element – Conversion options embedded in convertible bonds (note ii)** HK$'000
Net carrying amount at 1 April 2008	132,414	69,824
Disposals	(18,386)	(9,695)
Change in fair value		
– charged to profit or loss (note (i))	(43,871)	1,855
– charged to equity	(13,660)	–
Net carrying amount at 31 March 2009 and at 1 April 2009	56,497	61,984
Disposals	**(9,333)**	**(30,854)**
Change in fair value		
– charged to profit or loss	**43,871**	**111,767**
– charged to equity	**15,699**	**–**
Net carrying amount at 31 March 2010	**106,734**	**142,897**

(i) As at 31 March 2009, the Group's available-for-sale debt securities were individually determined to be impaired on the basis of a material decline in their fair values below cost and adverse changes in market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment loss on these investments was recognised in profit or loss.

(ii) The conversion options embedded in convertible bonds are classified as derivative financial instruments in consolidated statement of financial position under current assets.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP AND COMPANY (Continued)

Notes (Continued):

(b) Particulars of the major investment in equity securities as at 31 March 2010 are as follows:

Name	Place of incorporation/ establishment	Principal activities	Particulars of issued capital/ registered capital	Percentage of interest held
Water Property (note (i))	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	8,490,020,345 shares (2009: 691,937,500 shares) of HK$0.01 each	23.38% (2009: 19.22%)
上海自來水投資建設有限公司("上海自來水") (note (ii))	PRC	Water supply infrastructure	Registered capital of RMB70,000,000	28.57%

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.

Fair values of the listed equity securities have been determined by reference to their quoted bid prices at the reporting date in an active market.

(i) Water Property is listed on the Stock Exchange and was pledged to secure the amended and restated term facility agreement as detailed in note 35(iv).

(ii) The investments in Water Property and 上海自來水 are not equity accounted for under HKAS 28 "Investments in Associates". This is because the directors of the Company are of the opinion that the Group has no participation in the financial and operating policy-making process.

(c) The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting 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.

At 31 March 2010, certain unlisted equity securities with a carrying amount of approximately HK$450,041,000 were transferred to "assets classified as held for sale" (note 46).

22. GOODWILL – GROUP

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

	2010	2009
	HK$'000	HK$'000
At beginning of the year		
Gross carrying amount	**155,126**	103,634
Accumulated impairment	**–**	–
Net carrying amount	**155,126**	103,634
For the year ended		
Net carrying amount at beginning of year	**155,126**	103,634
Acquisition of subsidiaries (note 44(b) and (g))	**14,721**	47,304
Exchange realignment	**5,496**	4,188
Net carrying amount at end of year	**175,343**	155,126
At end of the year		
Gross carrying amount	**175,343**	155,126
Accumulated impairment	**–**	–
Net carrying amount	**175,343**	155,126

Goodwill acquired through business combination have been allocated to the following cash-generating unit/group of cash-generating units for impairment testing:

– water supply cash-generating unit ("water supply CGU") within city water supply operation and construction segment; and

– other cash-generating unit ("other CGU").

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	Water supply CGU	**Other CGU**	**Total**
	HK$'000	HK$'000	HK$'000
Carrying amount at 31 March 2010	**159,704**	**15,639**	**175,343**
Carrying amount at 31 March 2009	154,210	916	155,126

22. GOODWILL – GROUP (Continued)

The recoverable amounts for the above cash-generating units 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% (2009: 3%) and discount rate of 11% (2009: 12%) 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.

23. OTHER INTANGIBLE ASSETS – GROUP

	Sewage treatment concession rights (note a)		Water supply concession rights (note b)		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At beginning of the year						
Cost	**147,426**	144,028	**39,711**	7,442	**187,137**	151,470
Accumulated amortisation	**(11,795)**	(5,761)	**(2,571)**	(207)	**(14,366)**	(5,968)
Net carrying amount	**135,631**	138,267	**37,140**	7,235	**172,771**	145,502
For the year ended						
Opening net carrying value	**135,631**	138,267	**37,140**	7,235	**172,771**	145,502
Additions	**–**	–	**10,558**	32,093	**10,558**	32,093
Amortisation	**(5,909)**	(5,897)	**(1,665)**	(2,359)	**(7,574)**	(8,256)
Exchange realignment	**278**	3,261	**76**	171	**354**	3,432
Net carrying amount	**130,000**	135,631	**46,109**	37,140	**176,109**	172,771
At end of the year						
Cost	**147,727**	147,426	**50,350**	39,711	**198,077**	187,137
Accumulated amortisation	**(17,727)**	(11,795)	**(4,241)**	(2,571)	**(21,968)**	(14,366)
Net carrying amount	**130,000**	135,631	**46,109**	37,140	**176,109**	172,771

23. OTHER INTANGIBLE ASSETS – GROUP (Continued)

Notes:

(a) Pursuant to several agreements between a wholly-owned subsidiary of the Company, namely 荊州中水 and a relevant authority in the PRC, namely 荊州市建設委員會, during the year ended 31 March 2007, the 荊州中水 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 on a TOT basis. The 荊州中水 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 2010 and 2009, the entire sewage treatment concession rights were pledged at a maximum period of 20 years as security for banking facilities granted to the Group (note 35(i)(g)).

(b) Pursuant to a concession agreement between a wholly-owned subsidiary of the Company, namely 鉛山銀龍 and a relevant authority in the PRC, namely 鉛山縣建設局, during the year ended 31 March 2008, 鉛山銀龍 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 on a TOT basis. 鉛山銀龍 is entitled to use all the property, plant and equipment of the water supply plant. Incidental to this TOT arrangement, the Group entered into a BOT arrangement with the same grantor for the construction of a new water supply plant to increase the water supply capacity.

As at 31 March 2010 and 2009, the entire water supply concession rights were pledged as security for banking facilities granted to the Group (note 35(i)(g)).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP AND COMPANY

		Group		Company	
	Notes	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Non-current					
Deposits for acquisition of equity securities	(i), (ii)	**44,318**	43,662	**–**	14,503
Other deposits	(iii)	**86,847**	49,589	**–**	–
Deposits		**131,165**	93,251	**–**	14,503
Prepayments	(iv)	**60,055**	26,006	**–**	–
		191,220	119,257	**–**	14,503
Current					
Prepayments	(v)	**40,473**	49,937	**2,180**	2,710
Deposits		**2,555**	12,863	**170**	–
Other receivables		**190,283**	194,604	**11,133**	16,758
		233,311	257,404	**13,483**	19,468

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP AND COMPANY (Continued)

Notes:

(i) As at 31 March 2010, the deposits for acquisition of equity securities mainly comprised the followings:

(a) An amount of approximately HK$10,227,000 represented the deposits paid by the Group in relation to the acquisition of 90% equity interest in 重慶市永川區佳和自來水有限責任公司 ("永川佳和") which is a company incorporated in the PRC and principally engaged in water supply (note 53(d)).

(b) An amount of approximately HK$32,954,000 represented the deposits paid by the Group in relation to the acquisition of 25.62% equity interest in 大亞灣溢源 which is a company incorporated in the PRC and principally engaged in water supply.

(ii) As at 31 March 2009, the deposits for acquisition of equity securities mainly comprised the followings:

(a) An amount of approximately HK$15,823,000 represented the deposits paid by the Group in relation to the open offer of offer shares by Water Property. On 17 November 2008, the Company entered into an underwriting agreement with Water Property, pursuant to which the Company agreed to act as an underwriter to fully underwrite the offer shares under the open offer on the terms and subject to the conditions set out in the underwriting agreement. The amount was transferred to "available-for-sale financial assets" during the year upon completion of the open offer.

(b) An amount of approximately HK$4,000,000 represented the deposits paid by the Company in relation to the acquisition of 9% equity interest in 廣州市增城自來水有限公司 which is a company established in the PRC and principally engaged in water supply. The amount was transferred to "available-for-sale financial assets" during the year upon completion of the acquisition.

(c) An amount of approximately HK$23,702,000 represented the deposit paid by the Group in relation to the acquisition of entire equity interest in 重慶僑立管道 which is a company incorporated in the PRC and principally engaged in production and sale of water pipelines. The amount was transferred to "interests in subsidiaries" during the year upon completion of the acquisition (note 44(a)).

(iii) As at 31 March 2010 and 2009, balances mainly represented deposits paid for acquisition of land use rights for the Group's business expansion.

(iv) At 31 March 2010, the amount mainly represented the Group's prepaid rental of land situated in the PRC and prepayment for construction work for own use (2009: prepaid rental of land).

(v) As at 31 March 2009, performance deposits paid to the customers, included in the Group's "prepayments", was HK$10,887,000.

None of the above deposits and other receivable is either past due or impaired. Deposits and other receivables relate to counterparties for which there was no recent history of default.

The directors of the Company consider that the fair values of current portion of deposits and other receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

25. PROPERTIES UNDER DEVELOPMENT – GROUP

	2010 HK$'000	2009 HK$'000
At cost		
At beginning of the year	**115,219**	21,747
Additions	**93,604**	29,623
Transfer from investment properties	**–**	63,336
Transfer to properties held for sale	**(42,843)**	–
Exchange realignment	**236**	513
At end of the year	**166,216**	115,219

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

As at 31 March 2010, the Group's properties under development with a carrying amount of approximately HK$63,466,000 (2009: HK$78,598,000) were pledged to secure banking facilities granted to the Group (note 35(i)(f)).

At the reporting date, the properties under development are expected to be recovered within one year.

26. PROPERTIES HELD FOR SALE – GROUP

	2010 HK$'000	2009 HK$'000
At cost		
At beginning of the year	**–**	–
Transfer from properties under development	**42,843**	–
Sales for the year	**(41,332)**	–
At end of the year	**1,511**	–

Properties held for sale included leasehold interests in land located in the PRC with lease terms expiring from 2046 to 2076.

At the reporting date, the properties held for sale are expected to be recovered within one year.

27. INVENTORIES – GROUP

	2010 HK$'000	2009 HK$'000
Raw materials and supplies	**51,173**	36,848
Work-in-progress	**3,557**	9,065
Finished goods	**1,257**	100
	55,987	46,013

At the reporting date, the inventories are expected to be recovered within one year.

28. TRADE RECEIVABLES – GROUP

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for construction projects for which settlement is made in accordance with the terms specified in the contracts governing the relevant transaction. The ageing analysis of trade receivables is as follows:

	2010 HK$'000	2009 HK$'000
0 to 90 days	**138,774**	115,357
91 to 180 days	**58,592**	93,798
Over 180 days	**341,634**	128,163
Neither past due nor impaired	**539,000**	337,318

As at 31 March 2010, the Group's trade receivables included an amount of approximately HK$390,956,000 (2009: HK$227,033,000) relating to the trade receivables of construction contracts.

As at the reporting 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 allowance for impairment of trade receivables is necessary as there was no recent history of significant default in respect of these trade debtors. Trade receivables that were neither past due nor impaired related to a large number of independent customers that had a good track record of credit with the Group. In general, the Group does not hold any collateral or other credit enhancements over these balances.

The directors of the Company consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

29. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK – GROUP

The Group recognised financial assets – amounts due from grantors for contract work in respect of its sewage treatment business arising from certain BOT arrangements. Details of the service concession arrangements of the Group is set out in note 5.

Amounts due from grantors for contract work represented revenue from construction services under BOT arrangements and bear interest at rate of 5.9% (2009: 5.9%) per annum. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the BOT arrangements.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity securities, at market value:				
– Hong Kong	**1,053**	971	**1,053**	971
– Elsewhere (note)	**52,788**	131,925	**–**	–
	53,841	132,896	**1,053**	971

Fair values of the listed equity securities have been determined by reference to their quoted bid prices at the reporting date in an active market.

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") with a carrying amount of approximately HK$50,865,000 (2009: HK$113,191,000), 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-fourth months after the First Lockup Period.

As at 31 March 2010, none of the Group's interests in Qian Jiang were within the lockup periods (2009: HK$36,046,000) or were pledged to secure banking facilities granted to the Group (2009: HK$36,046,000) (note 35(i)(h)).

31. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS – GROUP AND COMPANY

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**501,201**	511,924	**142,674**	62,402
Short-term bank deposits	**104,588**	65,730	**63,600**	11,625
	605,789	577,654	**206,274**	74,027
Less: Pledged deposits (note 35(i)(i))	**(83,111)**	(31,587)	**(63,600)**	–
Cash and cash equivalents	**522,678**	546,067	**142,674**	74,027

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for seven days (2009: seven days and two months) depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates of 1.35% (2009: 0.35% to 1.35%) per annum.

The directors of the Company considered that the fair values of the cash at banks and short-term bank deposits is not materially different from their carrying amounts because of the short maturity period on their inception.

As at 31 March 2010, the Group had cash and bank balances denominated in Renminbi ("RMB") amounting to approximately HK$341,746,000 (2009: HK$483,894,000), which were deposited with banks in the PRC or 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. Based on the invoice dates, the ageing analysis of the Group's trade payables as at the reporting date is as follows:

	2010	2009
	HK$'000	HK$'000
0 to 90 days	**95,170**	105,876
91 to 180 days	**30,969**	67,750
Over 180 days	**200,709**	87,508
	326,848	261,134

33. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK – GROUP

	2010 HK$'000	2009 HK$'000
Contract cost incurred plus recognised profits less recognised losses	**720,500**	490,815
Less: Progress billings	**(720,500)**	(505,480)
	–	(14,665)
Representing:		
Amounts due to customers for contract work	**–**	(14,665)
Contract revenue recognised as revenue in the year	**228,682**	191,920

34. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Accrued liabilities	**43,166**	58,276	**16,158**	3,017
Deposits received	**275,373**	90,563	**41,255**	41,255
Other payables	**419,634**	429,858	**4,782**	10,722
	738,173	578,697	**62,195**	54,994

35. BORROWINGS – GROUP

	Notes	Original currency	2010 HK$'000	2009 HK$'000
Current				
Bank loans – unsecured	(ii)	RMB	**143,182**	–
Bank loans – secured	(i), (ii)	RMB	**227,528**	198,352
Other loans – unsecured	(iii)	RMB	**128,891**	61,042
Other loans – secured	(i), (iii)	RMB	**65,909**	16,330
Other loans – secured	(iv)	USD	**54,407**	–
Government loans – unsecured	(v)	RMB	**16,898**	57,076
			636,815	332,800
Non-current				
Bank loans – unsecured	(ii)	RMB	**312,500**	–
Bank loans – secured	(i), (ii)	RMB	**917,375**	681,215
Other loans – unsecured	(iii)	RMB	**3,398**	1,134
Other loans – secured	(i), (iii)	RMB	**–**	6,351
Other loans – secured	(iv)	USD	**217,627**	269,750
Government loans – unsecured	(v)	RMB	**85,060**	52,917
			1,535,960	1,011,367
			2,172,775	1,344,167

35. BORROWINGS – GROUP (Continued)

	2010 HK$'000	2009 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**370,710**	198,352
In the second year	**280,898**	148,055
In the third to fifth years, inclusive	**742,216**	413,971
Beyond five years	**206,761**	119,189
	1,600,585	879,567
Other loans repayable:		
Within one year or on demand	**249,207**	77,372
In the second year	**56,668**	59,067
In the third to fifth years, inclusive	**164,357**	162,774
Beyond five years	**–**	55,394
	470,232	354,607
Government loans repayable:		
Within one year or on demand	**16,898**	57,076
In the second year	**35,498**	5,643
In the third to fifth years, inclusive	**22,563**	10,576
Beyond five years	**26,999**	36,698
	101,958	109,993

Notes:

(i) The Group's bank loans and other loans at 31 March 2010 were secured by:

(a) pledge of water and sewage treatment 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, 新余市人大常委會 and 韶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 2010 was HK$101,026,000 (2009: HK$95,480,000) (note 15);

35. BORROWINGS – GROUP (Continued)

Notes: (Continued)

(i) The Group's bank loans and other loans at 31 March 2010 were secured by: (Continued)

(d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2010 was HK$16,998,000 (2009: HK$8,584,000) (note 16);

(e) charges over investment properties in which their aggregate carrying amounts as at 31 March 2010 was HK$229,332,000 (2009: HK$147,426,000) (note 17);

(f) charges over properties under development in which their aggregate carrying amount as at 31 March 2010 was HK$63,466,000 (2009: HK$78,598,000) (note 25);

(g) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2010 was HK$176,109,000 (2009: HK$172,771,000) (note 23);

(h) charges over interest in Qian Jiang with a carrying amount of HK$Nil as at 31 March 2010 (2009: HK$36,046,000) (note 30); and

(i) charges over the Group's bank deposits in amount of HK$83,111,000 as at 31 March 2010 (2009: HK$31,587,000) (note 31).

(ii) The effective interest rates of the Group's bank loans ranged from 5.2% to 9.8% (2009: 5.2% to 9.7%) per annum at 31 March 2010.

(iii) The effective interest rates of the Group's other loans ranged from 1% to 10% (2009: 2.8% to 13.4%) per annum at 31 March 2010.

(iv) 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"). On 13 August 2008, the Company and its subsidiary, DEG and FMO entered into amended and restated term facility agreement to amend the Loan Agreement (the "Amended Loan Agreement"). In connection with the Amended Loan Agreement, the Company acted as guarantor and issued to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company (the "Warrants") (note 37).

The facility of US$36 million was fully utilised during the year ended 31 March 2009 (the "DEG and FMO Loan"). The DEG and FMO Loan bears floating rate of 2.10% per annum above the London Inter-Bank Offer Rates. The subscription monies for the Warrants shall be satisfied by way of set off of any outstanding amount under the Amended Loan Agreement. The loan facility under the Amended Loan Agreement is secured by (i) shares of certain subsidiaries of the Group; (ii) the Group's equity interests in Water Property (note 21(b)(i)); and (iii) a bank account of the Group.

During the year ended 31 March 2010, certain provisions of the Amended Loan Agreement were breached which could cause the DEG and FMO Loan becomes payable on demand. However, on 31 March 2010, the Group has been granted the waiver in respect of granting a period of grace until 1 April 2011 in connection with the breached provisions. In the opinion of the directors of the Company and after taking into account the waiver, the Group has an unconditional right to defer settlement of the DEG and FMO Loan until 1 April 2011.

(v) The government loans bore interests at effective interest rates ranging from 0.75% to 5.0% (2009: 0.75% to 5.0%) per annum at 31 March 2010.

36. DUE FROM/(TO) MINORITY EQUITY HOLDERS OF SUBSIDIARIES – GROUP AND COMPANY

Except for the amount due to minority equity holder of subsidiary with carrying amount of HK$35,290,000 (2009: HK$32,774,000) which bears interest rate of 6.7% (2009: 6.7%) per annum, all the balances were unsecured, interest-free and repayable on demand.

During the year ended 31 March 2009, the Group made an impairment provision amounted to HK$694,000 for the amounts due from former subsidiaries.

37. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND COMPANY

	2010 **HK$'000**	2009 HK$'000
Warrants (note)	**2,754**	552
Derivative component of convertible bonds issued by the Company (note 38)	**252**	6,339
	3,006	6,891

Note: During the year ended 31 March 2009, the Company issued the Warrants with the right to subscribe for the ordinary shares of the Company at subscription price of HK$7 during the subscription period from 18 December 2008 to 18 December 2011 (both days inclusive) up to US$10.8 million in connection with the Amended Loan Agreement (note 35(iv)).

The fair value of the Warrants was calculated using the Black-Scholes-Merton Option Pricing Model with the major inputs used in the model as follows:

	2010	2009
Stock price	**HK$3.41**	HK$1.21
Expected volatility	**52.47%**	61.35%
Risk free rate	**0.618%**	0.762%

38. CONVERTIBLE BONDS – GROUP AND COMPANY

Pursuant to an 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 Bank Limited ("DBS") on 3 August 2007. 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. On 3 February 2009, the Conversion Price was reset to the Reference Price at 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.

38. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

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 2012 Convertible Bonds are 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.

During the year ended 31 March 2009, the Company repurchased 2012 Convertible Bonds in principal amount of HK$413,100,000 at an aggregate consideration of HK$258,384,000.

Subsequent to 31 March 2010, the Company repurchased/placed the repurchase notice of the 2012 Convertible Bonds in total of principal amount of HK$157,200,000 at an aggregate consideration of HK$184,549,000. In addition, certain bondholders have exercised their rights to require the Company to redeem the 2012 Convertible Bonds in principal amount of HK$79,700,000 on 3 August 2010 at an aggregate consideration of HK$94,475,000.

The carrying values of the liability component and derivative component of the 2012 Convertible Bonds are as follows:

Liability component

	2010 **HK$'000**	2009 HK$'000
At beginning of the year	**235,530**	590,250
Interest expenses	**21,722**	40,095
Arising from repurchases	**–**	(394,815)
At end of the year	**257,252**	235,530

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 applying the effective interest rate of 9.2% to the adjusted liability component.

Since 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 on 3 August 2010, the liability component of the 2012 Convertible Bonds is classified as current liabilities at 31 March 2010.

38. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Derivative component

	2010 HK$'000	2009 HK$'000
At beginning of the year	6,339	94,635
Arising from repurchases	–	(51,479)
Change in fair value of derivative financial instruments	(6,087)	(36,817)
At end of the year	252	6,339

The derivative component is carried at fair value on the statement of financial position with any changes in fair value being charged or credited to the profit or loss in the period when the change occurs. The fair value of the derivative component of the 2012 Convertible Bonds was calculated using the Binomial model with the major inputs used in the model as follows:

	2010	2009
Stock price	HK$3.41	HK$1.21
Expected volatility	44.56%	65.06%
Risk free rate	0.15%	1.28%

39. DEFERRED GOVERNMENT GRANTS – GROUP

	2010 HK$'000	2009 HK$'000
At beginning of the year	28,309	14,518
Additions during the year	25,232	14,743
Amortisation during the year	(2,153)	(1,294)
Exchange realignment	58	342
At end of the year	51,446	28,309

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

40. 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% (2009: 25%).

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

	Temporary differences on assets recognised under HK(IFRIC)-Int 12 HK$'000	Fair value adjustments arising from other financial assets HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 April 2008	–	34,042	–	79,301	113,343
Charged/(credited) to profit or loss (note 10)	1,375	(17,831)	–	78,800	62,344
Acquisition of a subsidiary (note 44(f))	–	–	2,759	–	2,759
Exchange realignment	–	803	–	1,531	2,334
At 31 March 2009 and 1 April 2009	1,375	17,014	2,759	159,632	180,780
Charged/(credited) to profit or loss (note 10)	563	(8,680)	–	749	(7,368)
Acquisitions of subsidiaries (note 44(a) and (c))	–	–	22,355	–	22,355
Exchange realignment	3	35	5	327	370
At 31 March 2010	**1,941**	**8,369**	**25,119**	**160,708**	**196,137**

41. SHARE CAPITAL

	Notes	Number of shares '000	Par value HK$'000
Authorised:			
Ordinary shares of HK$0.01 each			
At 31 March 2009 and 2010		20,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK$ 0.01 each			
At 31 March 2008		1,239,784	12,398
Repurchased and cancelled	(a)	(32,912)	(329)
At 31 March 2009 and 1 April 2009		1,206,872	12,069
Placing and subscription of new shares	(b)	120,000	1,200
Share option exercised	(c)	800	8
At 31 March 2010		**1,327,672**	**13,277**

Notes:

(a) During the year ended 31 March 2009, the Company repurchased a total of 32,912,000 ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately HK$38,458,000. The highest price paid and the lowest price paid was HK$1.38 and HK$1.00 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.

(b) On 26 June 2009, 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 Kim Eng Securities (Hong Kong) Limited for the placement of 120,000,000 ordinary shares of the Company owned by AFRL at a price of HK$1.90 per share. Pursuant to a conditional subscription agreement on the same date, AFRL subscribed for 120,000,000 new ordinary shares of the Company at a price of HK$1.90 per share. On 10 July 2009, the subscription was completed and raised a total consideration of approximately HK$228,000,000 (before expenses). The premium received was credited to the share premium account.

(c) During the year ended 31 March 2010, the subscription rights attaching to 700,000 and 100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$1.16 and HK$1.45 per share respectively, resulting in the issue of 800,000 shares of HK$0.01 each for a total of cash consideration of approximately HK$957,000 (before expenses) (note 42). The premium received was credited to the share premium account.

42. 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.

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.

42. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2010 are as follows:

Name or category of participant	Number of share options: At 1 April 2009	Granted during the year	Exercised during the year (note 41)	Lapsed during the year	At 31 March 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK$) (note b)
Directors								
Mr. Duan Chuan Liang	50,000,000	–	–	(50,000,000)	**–**	2 April 2007	Period 3	3.60
	50,000,000	–	–	–	**50,000,000**	12 January 2009	Period 6	1.02
	100,000,000	–	–	(50,000,000)	**50,000,000**			
Mr. Li Ji Sheng	1,000,000	–	–	(1,000,000)	**–**	10 August 2007	Period 5	4.58
	–	1,000,000	–	–	**1,000,000**	10 December 2009*	Period 7	2.85
	1,000,000	1,000,000	–	(1,000,000)	**1,000,000**			
Mr. Chen Guo Ru	500,000	–	–	(500,000)	**–**	10 August 2007	Period 5	4.58
	–	500,000	–	–	**500,000**	10 December 2009*	Period 7	2.85
	500,000	500,000	–	(500,000)	**500,000**			
Mr. Zhao Hai Hu	800,000	–	–	(800,000)	**–**	10 August 2007	Period 5	4.58
	–	1,000,000	–	–	**1,000,000**	10 December 2009*	Period 7	2.85
	800,000	1,000,000	–	(800,000)	**1,000,000**			
Mr. Zhou Wen Zhi	500,000	–	–	(500,000)	**–**	10 August 2007	Period 5	4.58
	–	500,000	–	–	**500,000**	10 December 2009*	Period 7	2.85
	500,000	500,000	–	(500,000)	**500,000**			
Mr. Wu Jiesi	6,000,000	–	–	–	**6,000,000**	29 March 2006	Period 1	1.45
	1,000,000	–	–	(1,000,000)	**–**	10 August 2007	Period 5	4.58
	–	500,000	–	–	**500,000**	10 December 2009*	Period 7	2.85
	7,000,000	500,000	–	(1,000,000)	**6,500,000**			
	109,800,000	3,500,000	–	(53,800,000)	**59,500,000**			

42. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2010 are as follows: (Continued)

Name or category of participant	At 1 April 2009	Granted during the year	Exercised during the year (note 41)	Lapsed during the year	At 31 March 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK$) (note b)
	Number of share options							
Other employees								
In aggregate	2,300,000	–	(700,000)	–	**1,600,000**	17 March 2006	Period 2	1.16
	1,000,000	–	(100,000)	–	**900,000**	29 March 2006	Period 1	1.45
	21,900,000	–	–	(21,900,000)	**–**	30 April 2007	Period 4	4.35
	–	8,500,000	–	–	**8,500,000**	10 December 2009*	Period 7	2.85
	25,200,000	8,500,000	(800,000)	(21,900,000)	**11,000,000**			
Suppliers/Advisors								
In aggregate	9,500,000	–	–	(9,500,000)	**–**	30 April 2007	Period 4	4.35
	–	2,000,000	–	–	**2,000,000**	10 December 2009*	Period 7	2.85
	9,500,000	2,000,000	–	(9,500,000)	**2,000,000**			
	144,500,000	14,000,000	(800,000)	(85,200,000)	**72,500,000**			

42. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2009 are as follows:

Name or category of participant	Number of share options: At 1 April 2008	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2009	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK$) (note b)
Directors								
Mr. Duan Chuan Liang	50,000,000	–	–	–	50,000,000	2 April 2007	Period 3	3.60
	–	50,000,000	–	–	50,000,000	12 January 2009	Period 6	1.02
	50,000,000	50,000,000	–	–	100,000,000			
Mr. Li Ji Sheng	1,000,000	–	–	–	1,000,000	10 August 2007	Period 5	4.58
Mr. Chen Guo Ru	500,000	–	–	–	500,000	10 August 2007	Period 5	4.58
Mr. Zhao Hai Hu	800,000	–	–	–	800,000	10 August 2007	Period 5	4.58
Mr. Zhou Wen Zhi	500,000	–	–	–	500,000	10 August 2007	Period 5	4.58
Mr. Wu Jiesi	6,000,000	–	–	–	6,000,000	29 March 2006	Period 1	1.45
	1,000,000	–	–	–	1,000,000	10 August 2007	Period 5	4.58
	7,000,000	–	–	–	7,000,000			
	59,800,000	50,000,000	–	–	109,800,000			
Other employees								
In aggregate	2,300,000	–	–	–	2,300,000	17 March 2006	Period 2	1.16
	1,000,000	–	–	–	1,000,000	29 March 2006	Period 1	1.45
	21,900,000	–	–	–	21,900,000	30 April 2007	Period 4	4.35
	25,200,000	–	–	–	25,200,000			
Suppliers/Advisors								
In aggregate	9,500,000	–	–	–	9,500,000	30 April 2007	Period 4	4.35
	94,500,000	50,000,000	–	–	144,500,000			

42. SHARE OPTION SCHEME (Continued)

* Approved by the shareholders in the special general meeting on 10 December 2009.

Notes:

Period 1	29 March 2006 to 28 March 2011
Period 2	17 March 2006 to 16 March 2011
Period 3	2 April 2007 to 1 April 2009
Period 4	30 April 2007 to 29 April 2009
Period 5	10 August 2007 to 9 August 2009
Period 6	12 January 2009 to 11 January 2012
Period 7	10 December 2009 to 9 December 2011

(a) The vesting date of the share options for Period 1 to 3 and 6 to 7 is the date of grant. The share options for Period 4 and 5 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 for share options exercised during the year at the date of exercise was HK$2.56 (2009: Nil).

(d) The weighted average exercise prices of share option is set out below:

	2010 **HK$**	2009 HK$
At beginning of the year	**2.75**	3.67
Granted during the year	**2.85**	1.02
Exercised during the year	**1.20**	N/A
Lapsed during the year	**3.92**	N/A
At end of the year	**1.42**	2.75

(e) The weighted average remaining contractual life of the share options outstanding at 31 March 2010 was approximately 1.67 (2009: 1.1) years.

The fair value of equity-settled share options granted during the year ended 31 March 2010 was estimated as at the approval 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:

	2010	2009
Expected volatility	**49.66%**	60.39%
Risk-free interest rate	**0.11%**	0.27%
Weighted average share price	**HK$2.67**	HK$1.04

42. SHARE OPTION SCHEME (Continued)

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 2010, the Company had 72,500,000 (2009: 144,500,000) share options outstanding under the Scheme, which represented approximately 5.5% (2009: 12%) of the Company's shares 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 72,500,000 (2009: 144,500,000) additional ordinary shares of the Company and additional share capital of HK$725,000 (2009: HK$1,445,000) and share premium of HK$102,036,000 (2009: HK$396,367,000) (before issue expenses).

43. 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 contributed surplus of the Group represents (i) 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; and (ii) the share premium reduction during the year ended 31 March 2010.

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 and reduction of interests in subsidiaries being acquired from and disposed to minority equity holders respectively.

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.

43. RESERVES (Continued)

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 April 2008	1,173,995	70,725	12	54,688	–	(412)	(228,507)	1,070,501
Repurchase of shares (note 41)	(38,129)	–	–	–	–	–	–	(38,129)
Share repurchase expenses	(271)	–	–	–	–	–	–	(271)
Equity-settled share option arrangements	–	–	–	26,666	–	–	–	26,666
Proposed final dividend (note 12)	–	(36,206)	–	–	–	–	–	(36,206)
Transactions with owners	(38,400)	(36,206)	–	26,666	–	–	–	(47,940)
Transfer to capital redemption reserve	–	–	329	–	–	–	(329)	–
Profit for the year	–	–	–	–	–	–	178,433	178,433
Other comprehensive income								
– Currency translation	–	–	–	–	–	(184)	–	(184)
Total comprehensive income for the year	–	–	–	–	–	(184)	178,433	178,249
Balance at 31 March 2009 and 1 April 2009	1,135,595	34,519	341	81,354	–	(596)	(50,403)	1,200,810
Placing and subscription of new shares (note 41)	226,800	–	–	–	–	–	–	226,800
Share issuance expenses	(11,632)	–	–	–	–	–	–	(11,632)
Share premium reduction	(1,350,762)	1,350,762	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	6,030	–	–	–	6,030
Share options exercised (note 41)	1,404	–	–	(455)	–	–	–	949
Share options lapsed	–	–	–	(63,920)	–	–	63,920	–
Final dividend 2009 (note 12)	–	(3,600)	–	–	–	–	–	(3,600)
Interim dividend 2010 (note 12)	–	(26,552)	–	–	–	–	–	(26,552)
Proposed final dividend 2010 (note 12)	–	(39,980)	–	–	–	–	–	(39,980)
Transactions with owners	(1,134,190)	1,280,630	–	(58,345)	–	–	63,920	152,015
Loss for the year	–	–	–	–	–	–	(42,348)	(42,348)
Other comprehensive income								
– Available-for-sale financial assets	–	–	–	–	82,709	–	–	82,709
– Currency translation	–	–	–	–	–	(22)	–	(22)
Total comprehensive income for the year	–	–	–	–	82,709	(22)	(42,348)	40,339
Balance at 31 March 2010	**1,405**	**1,315,149**	**341**	**23,009**	**82,709**	**(618)**	**(28,831)**	**1,393,164**

43. RESERVES (Continued)

(b) Company (Continued)

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.

44. ACQUISITION OF SUBSIDIARIES

(a) On 31 May 2009, the Group acquired 100% equity interest in 重慶僑立管道 at a consideration of RMB37,402,000 (approximately HK$42,502,000). 重慶僑立管道 is principally engaged in trading and manufacturing of water pipelines.

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

	HK$'000
Purchase consideration	18,800
Deposit paid (note 24(ii)(c))	23,702
Total purchase consideration	42,502
Fair value of net assets acquired	(72,719)
Excess over the cost of business combination recognised in profit or loss	(30,217)

The excess over the cost of business combination recognised in profit or loss was attributable to the bargain purchase with the seller and the seller was willing to accept less than the business fair value as consideration.

44. ACQUISITION OF SUBSIDIARIES (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	**11,436**	**12,681**
Prepaid land lease payments	**68,977**	**26,819**
Inventories	**913**	**913**
Prepayments, deposits and other receivables	**1,694**	**1,694**
Bank and cash balances	**540**	**540**
Trade payables	**(108)**	**(108)**
Accrued liabilities, deposits received and other payables	**(505)**	**(505)**
Deferred tax liabilities	**(10,228)**	**–**
Net assets attributed to the Group acquired	**72,719**	**42,034**
Bank and cash balances in subsidiaries acquired		**540**
Cash consideration		**(18,800)**
Net outflow		**(18,260)**

Since its acquisition, 重慶僑立管道 contributed revenue of HK$5,106,000 and net loss of HK$2,133,000 to the Group for the period from 31 May 2009 to 31 March 2010.

Had the combination taken place on 1 April 2009, the revenue and the net profit of the Group for the year ended 31 March 2010 would have been HK$1,403,274,000 and HK$442,570,000 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 2009, nor are they intended to be a projection of future results.

44. ACQUISITION OF SUBSIDIARIES (Continued)

(b) On 12 August 2009, the Group acquired 100% equity interest in Bright Orient which held 100% equity interest in 重慶僑立水電開發有限公司 ("重慶僑立水電") (collectively known as Bright Orient Group") at a consideration of HK$43,520,000. 重慶僑立水電 is engaged in investment holding which had 5% equity interest in 江河農村電氣化發展有限公司 ("江河農電").

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

	HK$'000
Total purchase consideration	43,520
Fair value of net assets acquired	(28,799)
Goodwill	14,721

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

	Fair value HK$'000	Carrying amount HK$'000
Property, plant and equipment	26	26
Available-for-sale financial assets	28,773	28,773
Prepayments, deposits and other receivables	24	24
Bank and cash balances	134	134
Accrued liabilities, deposits received and other payables	(27)	(27)
Provision for tax	(131)	(131)
Net assets attributed to the Group acquired	28,799	28,799
Bank and cash balances in subsidiaries acquired		134
Cash consideration		(43,520)
Net outflow		(43,386)

Since its acquisition, Bright Orient Group contributed revenue of HK$Nil and net loss of HK$35,000 to the Group for the period from 12 August 2009 to 31 March 2010.

Had the combination taken place on 1 April 2009, the revenue and the net profit of the Group for the year ended 31 March 2010 would have been HK$1,398,168,000 and HK$444,668,000 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 2009, nor are they intended to be a projection of future results.

44. ACQUISITION OF SUBSIDIARIES (Continued)

(c) On 8 March 2010, the Group acquired 80.65% effective equity interest in 北京上河元 and its subsidiaries (together the "北京上河元 Group") at a consideration of RMB61,700,000 (approximately HK$70,113,000). 北京上河元 is principally engaged in property investment business.

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

	HK$'000
Total purchase consideration	70,113
Fair value of net assets acquired	(89,554)
Excess over the cost of business combination recognised in profit or loss	(19,441)

The excess over the cost of business combination recognised in profit or loss was attributable to the bargain purchase with the seller and the seller was willing to accept less than the business fair value as consideration.

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

	Fair value HK$'000	Carrying amount HK$'000
Property, plant and equipment	2,042	2,042
Prepaid land lease payments	67,045	21,840
Inventories	93	93
Prepayments, deposits and other receivables	47,435	47,435
Bank and cash balances	67,224	67,224
Accrued liabilities, deposits received and other payables	(54,661)	(54,661)
Deferred tax liabilities	(12,127)	–
Minority interest	(27,497)	(20,667)
Net assets attributed to the Group acquired	89,554	63,306
Bank and cash balances in subsidiaries acquired		67,224
Cash consideration		(70,113)
Net outflow		(2,889)

44. ACQUISITION OF SUBSIDIARIES (Continued)

(c) (Continued)

Since its acquisition, 北京上河元 Group contributed revenue of HK$Nil and net loss of HK$252,000 to the Group for the period from 8 March 2010 to 31 March 2010.

Had the combination taken place on 1 April 2009, the revenue and the net profit of the Group for the year ended 31 March 2010 would have been HK$1,398,688,000 and HK$443,749,000 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 2009, nor are they intended to be a projection of future results.

(d) On 1 April 2009, the Group effectively obtained the control in the board of directors of 江河港武, which was previously classified as interest in an associate as stated in note 19. 江河港武 is principally engaged in water supply business.

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

	HK$'000
Transfer from interests in an associate	**103,580**
Fair value of net assets at the date of transfer	**(103,580)**
Goodwill	**–**

44. ACQUISITION OF SUBSIDIARIES (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	940,374	940,374
Prepaid land lease payments	3,381	3,381
Deposits and prepayments	20,453	20,453
Trade receivables	8,355	8,355
Due from a minority interest	13,489	13,489
Bank and cash balances	29,996	29,996
Trade payables	(22,681)	(22,681)
Accrued liabilities, deposits received and other payables	(136,134)	(136,134)
Due to a minority interest	(82,951)	(82,951)
Borrowings	(474,030)	(474,030)
Provision for tax	(4,587)	(4,587)
Minority interests	(192,085)	(192,085)
Net assets attributed to the Group acquired	103,580	103,580
Bank and cash balances in subsidiaries acquired		29,996
Cash consideration		–
Net inflow		29,996

Since its acquisition, 江河港武 contributed revenue of HK$137,584,000 and net profit of HK$23,677,000 to the Group for the period from 1 April 2009 to 31 March 2010.

44. ACQUISITION OF SUBSIDIARIES (Continued)

(e) On 1 April 2009, the Group effectively obtained the control in the board of directors of China Kolon, which was previously classified as interest in a jointly-controlled entity (note 20). China Kolon is an investment holding company during the year. The directors therefore consider that China Kolon did not meet the definition of a business in HKFRS 3 at the acquisition date. Accordingly, the acquisition has been accounted for as an asset purchase.

Details of the net assets acquired are as follows:

	Net assets acquired HK$'000
Prepayments, deposits and other receivables	**899**
Due from the Group	**13,970**
Bank and cash balances	**11,433**
Minority interests	**(12,888)**
Net assets attributed to the Group acquired	**13,414**
Bank and cash balances in subsidiaries acquired	**11,433**
Cash consideration	**–**
Net inflow	**11,433**

(f) On 31 December 2008, the Group acquired 100% equity interest in Ming Hing and its subsidiary (together, the "Ming Hing Group") at a consideration of HK$53,760,000. Ming Hing 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	53,760
Fair value of net assets acquired	(61,640)
Excess over the cost of business combination recognised in profit or loss	(7,880)

44. ACQUISITION OF SUBSIDIARIES (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	80,684	80,684
Prepaid land lease payments	33,706	22,670
Inventories	31	31
Trade receivables	373	373
Prepayments, deposits and other receivables	10,953	10,953
Bank and cash balances	4,235	4,235
Trade payables	(2,385)	(2,385)
Accrued liabilities, deposits received and other payables	(36,211)	(36,211)
Bank loans	(20,980)	(20,980)
Government loans	(6,007)	(6,007)
Deferred tax liabilities	(2,759)	–
Amounts due to former group companies	(43,175)	(43,175)
	18,465	10,188
Amounts due to former group companies assigned to the Group	43,175	43,175
Net assets acquired	61,640	53,363
Bank and cash balances in subsidiaries acquired		4,235
Cash consideration		(53,760)
		(49,525)
Add: Settled through current account		53,760
Net inflow		4,235

Since its acquisition, Ming Hing Group contributed revenue of HK$10,666,000 and net profit of HK$3,541,000 to the Group for the period from 31 December 2008 to 31 March 2009.

Had the combination taken place on 1 April 2008, the revenue and the net profit of the Group for the year ended 31 March 2009 would have been HK$1,063,399,000 and HK$230,991,000 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 2008, nor are they intended to be a projection of future results.

44. ACQUISITION OF SUBSIDIARIES (Continued)

(g) On 21 May 2008, the Group acquired 49% effective equity interest in 大亞灣溢源 from 惠州市投資管理有限公司, a minority equity holder of a subsidiary of the Company, at a consideration of RMB190,127,000 (approximately HK$209,139,000). 大亞灣溢源 is principally engaged in water supply and water supply infrastructure.

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

	HK$'000
Cash consideration	61,689
Deposits paid	147,450
Total consideration	209,139
Direct costs relating to the acquisition	3,900
Fair value of net assets acquired	(165,735)
Goodwill	47,304

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 大亞灣溢源.

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

	Fair value HK$'000	**Carrying amount** HK$'000
Property, plant and equipment	334,859	334,859
Prepayments, deposits and other receivables	9,006	9,006
Bank and cash balances	346	346
Accrued liabilities, deposits received and other payables	(55,024)	(55,024)
Other borrowings	(52,423)	(52,423)
Minority interests	(71,029)	(71,029)
Net assets attributed to the Group acquired	165,735	165,735
Bank and cash balances in subsidiaries acquired		346
Cash consideration		(61,689)
Direct cost relating to the acquisition paid		(3,900)
Net outflow		(65,243)

44. ACQUISITION OF SUBSIDIARIES (Continued)

(g) (Continued)

Since its acquisition, 大亞灣溢源 contributed revenue of HK$33,969,000 and net profit of HK$3,740,000 to the Group for the period from 21 May 2008 to 31 March 2009.

Had the combination taken place on 1 April 2008, the revenue and the net profit of the Group for the year ended 31 March 2009 would have been HK$1,033,199,000 and HK$228,674,000 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 2008, nor are they intended to be a projection of future results.

45. DEEMED/PARTIAL DISPOSAL OF SUBSIDIARIES

(a) Upon the new incorporation of 上海銀龍水務, an indirect subsidiary of the Company, the Group's effective interest in subsidiaries of 上海銀龍水務, which previously held by 上海倍臣, was diluted from 100% to 95% on 27 October 2009. During the year ended 31 March 2010, as a result of such dilution, a deemed disposal loss of HK$13,969,000 was charged to other reserves.

(b) Upon the transfer of the 95% equity interests in 分宜中水 and 萬年中水 to China Kolon, which previously was a jointly controlled entity and became a subsidiary of the Company during the year, the Group's effective interest in 分宜中水 and 萬年中水 was diluted from 100% to 53.45% subsequent to 1 April 2009. During the year ended 31 March 2010, as a result of such dilution, a deemed disposal gain of HK$323,000, was credited to other reserves.

(c) Upon the partial disposal of 10% equity interests in 長沙(中國水務), an indirect subsidiary of the Company, on 12 May 2009, a partial disposal loss of HK$4,200,000 was resulted and charged to other reserves during the year ended 31 March 2010.

46. ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 March 2010, the directors planned to sell the available-for-sale financial assets, namely equity interest in 江河農電 and 17.085% equity interest in 中國水務投資有限公司 ("水務投資"), and has entered into the following agreements subsequent to 31 March 2010. Accordingly, the relevant assets attributable to disposals have been presented as "assets classified as held for sale" as at 31 March 2010.

The directors expected that the proceeds of the disposal are greater than the net carrying amount of the relevant assets and therefore no impairment is necessary.

46. ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

(a) On 20 May 2010, the Company entered into a conditional agreement with CW Group (HK), a direct wholly owned subsidiary of the Company, and AES China Hydropower Investment Co. Pte. Ltd ("AES") (i) to sell the entire issued share capital in China Hydropower, an indirect wholly owned subsidiary of the Company which held 35% equity interest in 江河農電, and the shareholder's loan due from China Hydropower to the Company in the sum of approximately HK$197.94 million to AES at the consideration of RMB238 million in cash, and (ii) to procure 河南銀龍, an indirect wholly owned subsidiary of the Company, to sell 15% of the equity interest in 江河農電 at the consideration of RMB102 million. Further details of which are disclosed in the Company's announcement dated 23 May 2010.

The major classes of assets and liabilities of China Hydropower and 江河農電 classified as held for sale are as follows:

	HK$'000
Available-for-sale financial assets	**267,342**
Cash and cash equivalents	**3,478**
Net assets classified as held for sale	**270,820**

* The net assets directly associated with the disposal group included the amount of inter-company balance of HK$197.94 million, which is due from China Hydropower to the Group.

(b) On 30 June 2010, the Company entered into an agreement with Jiangyin Chang Jiang Steel Pipes Company Limited to sell 13.228% equity interest in 水務投資, at the consideration of RMB236.4 million in cash. The disposal of the remaining 3.857% equity interest in 水務投資 at a consideration of HK$41,255,000 was also completed in June 2010. As of 31 March 2010, the associated assets classified as held for sale amounted to approximately HK$182,699,000.

47. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Disposal of subsidiaries

	2010 HK$'000	2009 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	–	533
Bank and cash balances	–	278
Trade receivables	–	866
Inventories	–	1,857
Prepayments, deposits and other receivables	379	25
Trade payables	–	(933)
Provision for tax	–	(31)
Accrued liabilities and other payables	–	(1,783)
Due to minority equity holders of subsidiaries	–	(130)
Minority interests	(367)	(913)
	12	(231)
Release of exchange fluctuation reserve upon disposal	(29)	(65)
Release of statutory reserves upon disposal	–	(8)
Gain on disposal of subsidiaries	17	1,438
Total consideration	–	1,134
Satisfied by:		
Cash	–	1,134
Total consideration	–	1,134

47. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(a) Disposal of subsidiaries (Continued)

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

	2010 HK$'000	2009 HK$'000
Cash consideration	–	1,134
Bank and cash balances disposed of	–	(278)
Net inflow	–	856
Less: unsettled amount of cash consideration as at 31 March	–	(1,134)
Net outflow	–	(278)

The disposed subsidiaries during the year ended 31 March 2010 contributed revenue of HK$592,000 (2009: HK$2,374,000) and net profit of approximately HK$218,000 (2009: HK$284,000) respectively to the Group for the period from 1 April 2009 to 30 June 2009 (2009: from 1 April 2008 to 31 December 2008) (being effective date of disposal).

(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 2010, equity-settled share options expenses of HK$6,030,000 (2009: HK$26,666,000) were charged to profit or loss.

(ii) During the year ended 31 March 2009, the acquisition of Ming Hing Group at a consideration of HK$53,760,000 was settled by the disposal of the Group's entire interests of 128,000,000 ordinary shares in Ming Hing Waterworks Holdings Limited, whose shares are listed on the Stock Exchange, at a consideration of HK$53,760,000.

(iii) During the year ended 31 March 2009, trade receivables of HK$216,871,000 were settled by land use rights in various pieces of land situated in the PRC, which were classified as investment properties.

(iv) During the year ended 31 March 2009, registered capitals of certain subsidiaries of the Group in the PRC were paid up by transfer of the property, plant and equipment of HK$42,846,000 and were settled through the current account with the minority equity holder of HK$142,879,000.

(v) During the year ended 31 March 2010, registered capitals of certain subsidiaries of the Group in the PRC were paid up by transfer of the property, plant and equipment of HK$33,531,000, land use right of HK$48,305,000, certain current assets of HK$3,651,000 and were settled through the current account with the minority equity holder of HK$1,843,000.

48. COMMITMENTS

At 31 March 2010, the Group/Company had the following outstanding commitments:

(i) Capital commitments

At the reporting date, the Group had the following capital commitments:

	2010 HK$'000	2009 HK$'000
Contracted, but not provided for		
– Construction in progress	**20,351**	62,604
– Plant and machinery	**2,417**	14,338
– Leasehold improvements	**195**	306
– Water pipelines	**93,522**	72,027
	116,485	149,275
Authorised, but not contracted for		
– Water pipelines	**51,570**	–
	168,055	149,275

(ii) Operating lease arrangement

As lessee

The Group leases certain of its leasehold land, office premises, properties, water pipelines, plant and machinery under operating lease arrangements for terms ranging from one to ten 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 reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Within one year	**15,668**	12,750	**571**	569
In the second to fifth years, inclusive	**45,107**	38,565	**276**	845
After five years	**42,574**	51,558	**–**	–
	103,349	102,873	**847**	1,414

48. COMMITMENTS (Continued)

(ii) Operating lease arrangement (Continued)

As lessor

The Group leases its investment 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 reporting date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**1,811**	1,796
In the second to fifth years, inclusive	**789**	2,428
	2,600	4,224

The Company does not have any significant minimum lease receipts under non-cancellable operating leases.

(iii) At 31 March 2010, the Group had other commitments amounted to approximately HK$52,108,000 (2009: HK$359,124,000) in respect of its business development and construction projects (including the BOT arrangements) in the PRC.

(iv) At 31 March 2010, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK$23,053,000 (2009: HK$104,637,000).

(v) At 31 March 2010, the Group had commitment, which is contracted but not provided for, to make acquisition of equity securities of approximately HK$41,648,000 (2009: HK$18,800,000). The relevant deposits of approximately HK$32,954,000 were paid at 31 March 2010 (2009: HK$23,702,000) (notes 24(i)(b) and 24(ii)(c)).

49. 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 water 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.

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

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, currency exchange rates and other prices), credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management. The Group has not used any derivatives or other instruments for hedging purposes. It is not the Group's policy to actively engage in the trading of financial instruments for speculative purpose.

(a) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities

Except for certain available-for-sale financial assets of HK$274,265,000 (2009: HK$456,701,000) 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 is exposed to credit risk in respect of the Water Property Convertible Bonds (note 21).

The Group has significant concentration of credit risk in relation to its receivables from customers amounting to approximately HK$390,956,000 (2009: HK$227,033,000) arising from its other infrastructure construction operation.

There is no requirement for collateral or other credit enhancement by the Group and the Company.

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers/counterparties after a credit worthiness assessment by the credit control department. When considered appropriate, customers may be requested to provide proof as to their financial position. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. Overdue balances and significant trade and other receivables are highlighted. The finance director will determine the appropriate recovery actions.

(b) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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.

Further, the Group has cash and cash equivalents denominated in US$. Since HK$ are pegged to US$, there is no significant exposure expected on US$ transactions and balances arising in Hong Kong.

The Company does not have significant exposures to foreign currencies at the reporting date.

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(c) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk mainly arises on bank deposits (note 31), borrowings which bore floating interests (note 35) and convertible bonds (note 38). 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.

The policies to manage interest rate risk have been followed by the Group since prior year are considered to be effective.

Sensitivity analysis

If the interest rates had been increased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's profit after income tax and retained earnings would decrease by approximately HK$5,967,000 (2009: HK$3,712,000) and the Company's loss after income tax (2009: profit after income tax) would decrease (2009: increase) by approximately HK$1,425,000 (2009: HK$623,000) and accumulated losses would decrease by approximately HK$1,425,000 (2009: HK$623,000). The assumed changes have no impact on the Group's and the Company's other components of equity.

The same % decrease in the interest rate would have the same magnitude on the Group's profit after income tax and retained earnings as shown above but of opposite effect, on the basis that all variables remain constant.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period.

The sensitivity analysis included in the financial statements for the year ended 31 March 2009 has been prepared on the same basis.

(d) Price risk

Price risk relates to the risk that the fair values or futures cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates).

The financial assets at fair value through profit and loss, certain available-for-sale financial assets stated at fair value and derivative financial instruments expose the Group to price risk.

The Group's investments in listed equity securities are primarily listed on the stock exchanges of Hong Kong and the PRC. Listed investments held in the available-for-sale portfolio have been chosen based on their long term growth potential and are monitored regularly for performance against expectations.

The underlying shares of the derivative financial instruments are listed on the Stock Exchange.

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(d) Price risk (Continued)

Sensitivity analysis

At 31 March 2010, it is estimated that a general increase of 10% of the price of the available-for-sale financial assets at fair value and financial assets at fair value through profit or loss and the value of derivative financial instruments, with all other variables held constant, would increase the Group's profit after income tax and retained earnings by approximately HK$19,373,000 (2009: HK$19,488,000) and other component of equity by HK$31,755,000 (2009: HK$1,330,000).

At 31 March 2010, it is estimated that a general increase of 10% of the price of the available-for-sale financial assets at fair value and financial assets at fair value through profit or loss and the value of the derivative financial instruments, with all other variables held constant, would decrease (2009: decrease) the Company's loss after income tax (2009: profit after income tax) and other component of equity by HK$12,603,000 (2009: HK$Nil), and increase accumulated losses by approximately HK$195,000 (2009: approximately HK$592,000).

A decrease of 10% in the price of the above financial assets and financial liabilities would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

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

The assumed changes in market prices represent management's assessment of a reasonably possible change in market prices over the next twelve month period.

The sensitivity analysis included in the financial statements for the year ended 31 March 2009 has been prepared on the same basis.

(e) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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, borrowings and convertible bonds as significant sources of liquidity. The Group is exposed to liquidity risk arising from certain redemption rights of the convertible bonds (note 38).

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(e) Liquidity risk (Continued)

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

Group

	On demand	Less than three months	Three to twelve months	Over one year	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 March 2010					
Trade payables	**299,567**	**23,635**	**3,581**	**65**	**326,848**
Other payables	**415,266**	**4,368**	**–**	**–**	**419,634**
Accrued liabilities	**-**	**42,800**	**366**	**–**	**43,166**
Borrowings	**155,650**	**15,031**	**528,609**	**1,746,033**	**2,445,323**
Due to minority equity holders of subsidiaries	**118,175**	**–**	**–**	**–**	**118,175**
Convertible bonds	**–**	**–**	**280,817**	**–**	**280,817**
	988,658	**85,834**	**813,373**	**1,746,098**	**3,633,963**
At 31 March 2009					
Trade payables	251,698	9,257	9	170	261,134
Other payables	429,858	–	–	–	429,858
Accrued liabilities	–	54,739	3,537	–	58,276
Borrowings	125,330	12,109	203,925	1,372,302	1,713,666
Due to minority equity holders of subsidiaries	109,497	–	–	–	109,497
Due to a jointly-controlled entity	13,970	–	–	–	13,970
Convertible bonds	–	–	–	280,817	280,817
	930,353	76,105	207,471	1,653,289	2,867,218

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(e) 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 2010					
Other payables	**3,022**	**1,760**	**–**	**–**	**4,782**
Accrued liabilities	**–**	**16,158**	**–**	**–**	**16,158**
Due to subsidiaries	**263,034**	**–**	**–**	**–**	**263,034**
Convertible bonds	**–**	**–**	**280,817**	**–**	**280,817**
	266,056	**17,918**	**280,817**	**–**	**564,791**
At 31 March 2009					
Other payables	10,722	–	–	–	10,722
Accrued liabilities	–	3,017	–	–	3,017
Due to subsidiaries	207,072	–	–	–	207,072
Due to a jointly-controlled entity	13,970	–	–	–	13,970
Convertible bonds	–	–	–	280,817	280,817
	231,764	3,017	–	280,817	515,598

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

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

The Group adopted the amendments to HKFRS 7 Improving Disclosures about Financial Instruments effective from 1 April 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Group has taken advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement disclosures have been presented.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

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

At 31 March 2010, the financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Group				
Assets				
Available-for-sale financial assets	317,553	106,734	–	424,287
Financial assets at fair value through profit or loss	53,841	–	–	53,841
Derivative financial instruments	–	142,897	–	142,897
	371,394	**249,631**	**–**	**621,025**
Liabilities				
Derivative financial instruments	**–**	**(3,006)**	**–**	**(3,006)**
Net fair values	**371,394**	**246,625**	**–**	**618,019**
Company				
Assets				
Available-for-sale financial assets	126,033	–	–	126,033
Financial assets at fair value through profit or loss	1,053	–	–	1,053
	127,086	**–**	**–**	**127,086**
Liabilities				
Derivative financial instruments	**–**	**(3,006)**	**–**	**(3,006)**
Net fair values	**127,086**	**(3,006)**	**–**	**124,080**

There have been no significant transfers between levels 1 and 2 in the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(g) Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

Financial assets

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loan and receivables				
– Trade receivables	**539,000**	337,318	**–**	–
– Amounts due from grantors for contract work	**94,588**	52,797	**–**	–
– Other receivables	**190,283**	194,604	**11,133**	16,758
– Due from subsidiaries	**–**	–	**595,161**	537,901
– Due from minority equity holders of subsidiaries	**131,566**	31,208	**2,140**	2,140
	955,437	615,927	**608,434**	556,799
– Bank and cash balances (including pledged deposits)	**605,789**	577,654	**206,274**	74,027
	1,561,226	1,193,581	**814,708**	630,826
At fair value				
– Available-for-sale financial assets	**424,287**	69,797	**126,033**	–
– Financial assets at fair value through profit or loss	**53,841**	132,896	**1,053**	971
– Derivative financial instruments	**142,897**	61,984	**–**	–
	621,025	264,677	**127,086**	971
At cost				
– Available-for-sale financial assets	**31,225**	443,401	**9,091**	182,699
	2,213,476	1,901,659	**950,885**	814,496

50. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(g) Categories of financial assets and liabilities (Continued)

Financial liabilities

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
At amortised cost				
– Trade payables	**326,848**	261,134	**–**	–
– Other payables	**419,634**	429,858	**4,782**	10,722
– Accrued liabilities	**43,166**	58,276	**16,158**	3,017
– Borrowings	**2,172,775**	1,344,167	**–**	–
– Due to subsidiaries	**–**	–	**263,034**	207,072
– Due to minority equity holders of subsidiaries	**118,175**	109,497	**–**	–
– Due to a jointly-controlled entity	**–**	13,970	**–**	13,970
– Convertible bonds	**257,252**	235,530	**257,252**	235,530
	3,337,850	2,452,432	**541,226**	470,311
At fair value				
– Derivative financial instruments	**3,006**	6,891	**3,006**	6,891
	3,340,856	2,459,323	**544,232**	477,202

51. 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 owners 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.

51. CAPITAL MANAGEMENT (Continued)

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and owners' 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 of dividends paid to owners, return capital to owners, issue new shares or raise new debts, or sell assets to reduce debt.

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

	2010 **HK$'000**	2009 HK$'000
Capital		
Total equity	**3,826,778**	2,687,837
Overall financing		
Borrowings	**2,172,775**	1,344,167
Convertible bonds	**257,252**	235,530
Derivative financial instruments	**3,006**	6,891
Due to minority equity holders of subsidiaries	**118,175**	109,497
	2,551,208	1,696,085
Capital-to-overall financing ratio	**1.50 times**	1.58 times

52. 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)

	2010 **HK$'000**	2009 HK$'000
Sales of debt securities	**–**	30,000

During the year ended 31 March 2009, the Group entered into an agreement with Global Business Investment Enterprises Limited, a wholly owned subsidiary of Prime Investments Holdings Limited ("PIHL"), whose shares are listed on the Stock Exchange, for the disposal of Water Property Convertible Bonds in the principal amount of HK$25,000,000. The total cash consideration was HK$30,000,000. Mr. Duan Chuan Liang, a director of the Company, is a substantial shareholder of PIHL. The gain on disposal amounted to approximately HK$4,092,000 was included in "Gain on disposal of convertible bonds".

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

	2010 **HK$'000**	2009 HK$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	**35,279**	42,888
– Share-based payments	**3,661**	17,222
– Retirement scheme contribution	**36**	24
	38,976	60,134

(c) During the year ended 31 March 2010, the Group entered into a sale and purchase agreement with 惠州市投資管理公司, a minority equity holder of a subsidiary of the Group, to acquire the remaining 25.62% equity interest in 大亞灣溢源 at consideration of RMB65,650,000 (approximately HK$74,602,000). A deposit of approximately HK$32,954,000 paid by the Group in relation to the acquisition was included in "deposits for acquisition of equity securities" in note 24(i)(b). Details of the acquisition are disclosed in the Company's announcement dated 23 September 2009.

52. RELATED PARTY TRANSACTIONS (Continued)

(d) During the year ended 31 March 2009, the Group acquired additional 0.54% and 0.41% equity interest in 江河水務 from Mr. Li Ji Sheng, a director of the Company and the minority equity holder respectively at a consideration of RMB1,500,000 (approximately HK$1,702,000) and RMB1,250,000 (approximately HK$1,277,000) respectively. The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from Mr. Li Ji Sheng and the minority equity holder has been dealt with in the other reserve.

(e) During the year ended 31 March 2009, the Group acquired additional 45% equity interest in 河南銀龍（西華）from the minority equity holder at a consideration of RMB6,300,000 (approximately HK$7,183,000). 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 2009, the Group acquired additional 40% equity interest in 江河旋龍 from the minority equity holder at a consideration of RMB50,000 (approximately HK$57,000). 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.

(g) During the year ended 31 March 2009, the Group acquired additional 10% equity interest in 新城開發 from the minority equity holder at a consideration of HK$24,500,000. 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.

53. POST REPORTING DATE EVENTS

In addition to those disclosed elsewhere in these financial statements, the Group had the following material events after 31 March 2010:

(a) On 10 March 2010, the Company entered into a subscription agreement with DBS pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK$600 million ("2015 Convertible Bonds") at 2.5% coupon rate per annum with maturity on 15 April 2015. The 2015 Convertible Bonds are convertible at any time on or after 26 May 2010 and up to the close of business on 5 April 2015 by the bondholders into ordinary share of the Company of HK$0.01 each at the option of the bondholders, at an initial conversion price of HK$4 per share ("2015 Conversion Price"). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 15 April 2011, the average of the volume weighted average price ("Average Market Price") of the shares of the Company on each trading day in the period of 20 consecutive trading days before the day immediately prior to 15 April 2011, is less than the 2015 Conversion Price on the 15 April 2011, the 2015 Conversion Price shall be reset to the Average Market Price. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2015 Convertible Bonds at 120.06 per cent of its principal amount on 15 April 2015.

53. POST REPORTING DATE EVENTS

(a) (Continued)

On or after 15 April 2013, the Company may redeem all or some of the 2015 Convertible Bonds at their accreted principal amount, in whole but not in part if the closing price of the shares of the Company for each of the 20 consecutive trading days ending not more than 20 days prior to the date upon which notice of such redemption is given, is at least 135 per cent of the 2015 Conversion Price on such trading day.

On 15 April 2013, the bondholders of the 2015 Convertible Bonds will have the right at such holders' option, to require the Company to redeem all or some of the 2015 Convertible Bonds at 111.32 per cent of their unpaid principal amount as at 15 April 2013.

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 2015 Convertible Bonds at their accreted principal amount.

The net proceeds from the issue of convertible bonds will be used for capital expenditure, working capital and general corporate purposes. Further details of which are disclosed in the Company's announcement dated 10 March 2010. The transaction was completed on 15 April 2010.

(b) On 20 May 2010, the Group entered into an agreement to dispose of its entire issued share capital in China Hydropower and 15% equity interest in 江河農電 (note 46(a)).

(c) On 30 June 2010, the Group entered into an agreement to dispose of its 13.228% equity interest in 水務投資. In June 2010, the Group completed the disposal of 3.857% equity interest in 水務投資 (note 46(b)).

(d) In May 2010, the Group completed the acquisition of 90% equity interest in 永川佳和, a water supply company (note 24).

(e) Subsequent to 31 March 2010, the Company repurchased/placed the repurchase notice of the 2012 Convertible Bonds and certain bondholders also exercised their right to require the Company to redeem the 2012 Convertible Bonds (note 38). After the completion of repurchases and redemption, the outstanding principal amount of the 2012 Convertible Bonds of HK$236,900,000 at 31 March 2010 will be fully repaid.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 March 2010 were approved for issue by the board of directors on 27 July 2010.

For the year ended 31 March 2010

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
中國江西省新余市青萍公路南側	Commercial/ residential	106	40 years/ 70 years
中國江西省新余市青萍公路南側	Commercial/ residential	107	40 years/ 70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	202	40 years/ 70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	203	40 years/ 70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	204	40 years/ 70 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	205	50 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	206	50 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	207	50 years
中國江西省新余市河下鎮環湖南側	Commercial	219	40 years
中國江西省新余市河下鎮環湖南側	Commercial	220	40 years
中國江西省新余市河下鎮環湖南側	Commercial	221	40 years
中國江西省新余市河下鎮環湖南側	Commercial	222	40 years

Financial Summary

RESULTS

	Year ended 31 March				
	2010 HK$'000	2009 HK$'000	2008 HK$'000 (Restated)	2007 HK$'000 (Restated)	2006 HK$'000 (Restated)
Revenue					
Continuing operations	**1,398,168**	1,033,199	765,538	134,735	46,813
Discontinued operation	**–**	–	6,960	5,609	6,088
	1,398,168	1,033,199	772,498	140,344	52,901
Profit/(loss) before income tax					
Continuing operations	**520,134**	326,617	310,484	129,790	(25,727)
Discontinued operation	**–**	–	344,631	21,888	5,474
	520,134	326,617	655,115	151,678	(20,253)
Income tax expense					
Continuing operations	**(75,431)**	(97,943)	(135,111)	(44,512)	(3,767)
Discontinued operation	**–**	–	–	(4,222)	(990)
	(75,431)	(97,943)	(135,111)	(48,734)	(4,757)
Profit/(loss) for the year					
Continuing operations	**444,703**	228,674	175,373	85,278	(29,494)
Discontinued operation	**–**	–	344,631	17,666	4,484
	444,703	228,674	520,004	102,944	(25,010)
Attributable to:					
Owners of the Company	**301,571**	115,037	427,242	63,379	(38,590)
Minority interests	**143,132**	113,637	92,762	39,565	13,580
	444,703	228,674	520,004	102,944	(25,010)

ASSETS AND LIABILITIES

	At 31 March				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Total assets	**7,776,110**	5,545,417	4,426,432	2,259,290	530,464
Total liabilities	**(3,949,332)**	(2,857,580)	(2,200,088)	(974,993)	(191,275)
Minority interests	**(1,277,124)**	(811,677)	(468,760)	(240,098)	(97,859)
Equity attributable to owners of the Company	**2,549,654**	1,876,160	1,757,584	1,044,199	241,330