



ANNUAL REPORT 2007



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

Stock code : 855



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# Corporate Information |

## BOARD OF DIRECTORS

### Executive

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

### Non-executive

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

### Independent Non-executive

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tam Chun Yip

## AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang  
Mr. Tam Chun Yip

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## HONG KONG BRANCH SHARE REGISTRAR

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

## STOCK CODE

855

## | Chairman's Statement

Dear Shareholders,

I am pleased to present the annual report of China Water Affairs Group Limited (the "Company") and together with its subsidiaries (collectively, the "Group") for the year ended 31 March 2007.

During the review period, China's economy continued to maintain a rapid growth. The continuing urbanization and incessant rise in living standards has brought about a change in people's pattern of water consumption and their requirements on water quality. Meanwhile, population increase, uneven water distribution and pollution of water resources are issues which further highlight the scarcity of water resources in China, which is an acute phenomenon.

### **OPPORTUNITIES ARISING FROM INDUSTRY TRANSFORMATION**

To solve the water resources problem, which has a far-reaching impact on the national economy and the people's livelihood, the PRC Government is determined to initiate reforms through the mechanism for industry competition by introducing market competition and improving the operation efficiency of the water system. The PRC Government is committed to improve the allocation of water resources, adjust water demand, promote the prevention and control of water pollution, encourage water conservation, and increase efficiency of utilization through the price leverage mechanism. In 2004, the State Council promulgated The Circular on Promoting Water Pricing Reform for Water Conservation and Water Resources Protection to clearly stipulate that people's governments in all localities shall "formulate water prices scientifically,...accelerate the water price reform", a clear demonstration of the Government's determination to launch the water-price reform.

With the Government's care of water resources in China, it gave a great impetus to the establishment of the Group. The Group was established with an aim to provide a comprehensively covered supply chain in water resources, water supply system, sewage treatment and water resources engineering. The Group is dedicated to provide the people of China with quality water supply and excellent services, and aspires to make whatever contribution it can to promote an economic use of water in the China market.

### **TO BLAZE A TRAIL WITH FAITH AND MISSION**

Our mission has been propelling the Group forward. The years 2006 and 2007 were a period during which the Group developed at a brisk pace and with tremendous momentum. During the Review Period, all staff members of the Group were infused with a strong team spirit. They did their best to search and select water related constructions throughout China promptly, and assessed and held discussions on merger and acquisition, with a view to accelerating the Group's growing pace and enabling the Group to become a leading operator in the business of raw water, urban water supply, and waste water services in China.

The Group made outstanding achievement in the Review Period. The Group penetrated the water supply and waste water services markets in different localities through investments to establish joint ventures, acquisition, or franchise purchase during the Review Period.

# Chairman's Statement |

## INDUSTRY OVERVIEW

In 2006, China's economy maintained its rapid pace of development; with a 10.7% increase in gross domestic product, and a 10.4% increase, in real terms, in the per capita disposable income of the urban population. There was an obvious improvement in living standards in general. However, the rapid economic expansion, urbanization, and the accelerating industry development, together with the incessant increase of population, have brought forth very big pressure on domestic water consumption, which in turn becomes a bottleneck curbing the sustainable economic and social development of China.

As more than 80% of China's water resources are located in the Yangtze River Basin and the areas to the south of the Yangtze River, the water resources per capita in northern China is even lower than China's national average level. The water resources have been excessively developed and damaged, and wastage is a widespread problem. Some areas have prolonged drought, intensifying China's water resources shortage problem. To solve the problem, the PRC Government has identified water resources as one of its work objectives in its Eleventh Five-Year-Plan (2006-2010), setting out the principles that the domestic water price should be increased to a reasonable level and the domestic water market should be opened up for the participation of local and foreign investors, so as to fulfill the objectives of economic use of water and effective utilization of water resources. These changes have brought unprecedented opportunities and challenges to the China's water market.

The formal commencement of water price reform in 2006 opened the curtain for the transformation of China's water market. Owing to the low concentration of the market, local monopolies are widespread. To consolidate their leading position in the market, enterprises are scrambling for first-mover advantages through industry merger, acquisition, and cross-regional development. These activities provided the momentum for the rapid development of China's water market last year, and this trend is estimated to continue in the foreseeable future.

## BUSINESS REVIEW

### Results

This year's financial report reflects the Group's remarkable success as an integrated water supplier.

The core businesses of the Group experienced a rapid expansion during the year under review. The Group recorded a turnover of HK\$140.3 million representing an increase of 165.2% from HK\$52.9 million recorded last year. The Group recorded a gross profit of HK\$58.2 million representing an increase of 168 % from HK\$21.7 million last year. For the year under review, the Group recorded a profit before income tax of HK\$151.7 million (2006: loss before taxation of HK\$20.3 million). The financial results for the year well demonstrated that the Group's robust growth drive and operation effects after the overall transformation of the Group's business.

The Group has deferred government grants related to the Group's acquisition of property, plant and equipment which amounted to approximately HK\$11.9 million as of 31 March 2007. In accordance with Hong Kong Financial Reporting Standards, government grants relating to the assets are included in liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

## | Chairman's Statement

On 22 June 2006, DBS Bank (Hong Kong) Limited subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK\$260 million. On 14 July 2006, DBS Bank (Hong Kong) Limited further subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK\$40 million. The convertible bonds bearing interest at the rate of 2.5 per cent per annum. During the year ended 31 March 2007, convertible bonds with an aggregate amount of HK\$233,000,000 were converted into ordinary shares of the Company and an additional of HK\$67,000,000 were converted into ordinary shares of the Company after the balance sheet date but before the date of this report. Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 8.9 per cent to the adjusted liability component which resulted in interest expense on convertible bonds of approximately HK\$13.4 million charged to the consolidated income statement for the year ended 31 March 2007. However, the actual cash outflow related to the payment of interest to the bondholders of convertible bonds only amounted to approximately HK\$2.5 million up to the date of this report.

On the other hand, the Company has also secured a development and infrastructure project which has been carried out in Xinyu City, Jiangxi Province, China. The pre-operating costs incurred for the project have been charged to the consolidated income statement for the year. The project is expected to contribute to the revenue and profit of the Group for the next year.

### **FUTURE PLANS AND PROSPECTS**

#### **Future Prospect**

The shortage and pollution of water resources has posed a formidable challenge to the economy and society of China. Although China's population accounts for approximately 21% of the world's population, and China is the most populous nation in the world, China suffers from an acute lack of water resources. In terms of fresh water, China is one of the thirteen nations with the lowest water resources per capita. At present, more than 400 among China's 600-odd cities encounter the problem of water shortage, including such important municipalities as Beijing and Tianjin. Meanwhile, only less than 300 million people have accessed to tap water in China. According to the relevant stipulations, the sewage treatment ratio in the cities and provinces across China should reach 70% by 2010. To ensure its normal operation, the sewage treatment market will inevitably become more and more industry-oriented and market-oriented.

In order to make better use of water resources and avoid their unrestrained abuse, the PRC Government has been actively promoting the reform of the domestic water market, including the introduction of competition and upward adjustment to prices. These measures have brought forth unlimited business opportunities to operators. Last year, the water price of China rose nearly 10%. It is believed that there is still much room for further price increase as China's water price has been low for a long time and is still a far cry from those of the developed countries. Besides, the leakage rates of China's tap water pipe networks are high, resulting in generally high operation and management costs of mainland water operators. An enterprise which has advanced technology and management may increase its investment return through cost reduction.

## Chairman's Statement |

The management team of the Group has extensive experience in China's water industry coupled with strong government background. They are among the few first movers in domestic water market development. They have good relations with international investors and financial institutions, which will facilitate the raising of funds for business expansion. The Group opines that in the foreseeable future, China's water market will still have tremendous room for development. The Group will continue expanding its market share through merger and acquisition, so as to fulfill its civic mission as a good enterprise to provide the masses of China with clean and safe water.

### Realignment of Structure to Accelerate Development

Given the huge potential of China's water market and for the purpose of further developing China's water market, the Group has realigned its structure in order to accelerate its entry to the water markets of various localities of China by enlisting cooperation in respect of holding of equity, talent and technology.

The Group has reached an agreement with Wah Yuen Holdings Limited ("Wah Yuen"), pursuant to which Wah Yuen will acquire all of the shares which are held by the Group in Conseco Seabuckthorn Co., Ltd. through an issue of new shares and convertible bonds, The transaction has made the Group's positioning to develop water operations even more distinctive. Meanwhile, the disposal of the Group's non-core business at an attractive valued price will help the Group concentrate resources on its core business development.

In addition, the Group has become a shareholder of Ming Hing Holdings Limited and Prime Investments Holdings Limited successively, aiming to fulfill mutually beneficial cooperation and accelerate the Group's pace of market expansion by leveraging on the experiences respectively owned by the two Hong Kong-listed companies in developing the market and making investment in water engineering services

### Exploring for Improvement with Bright Prospects

Indeed, the de-regulation of the industry and upward adjustments of water price has brought forth an entirely new change to the China's water market. As a first mover in the transformation and development of the industry, the Group is dedicated to the development of the water market business and has faith in it. With the extensive experience of the senior management of the Group in the oversight and operation of the industry, their operation capability in the water affairs industry, our strong operation team, and the professional and far-sighted business planning, the Group has won the recognition of the local governments, industry regulatory authorities, and the capital market. This helps the Group accelerating the process of industry merger and acquisition to become a pioneer in the mushrooming water resources market of China.

In the coming year, all staff members of the Group will open up new horizons and seek growth with their concerted efforts in China's thriving water market. The Group will continue accelerating its development through merger and acquisition. To fulfill our mission of providing people of China with clean and safe water, the Group will endeavor to explore various opportunities in the water market, to strengthen and improve the scale and mode of operation of the Group, and to achieve satisfactory return for shareholders

The Group has been initiatively considering to provide sewage treatment services in its existing areas of operation, aiming to develop related business for the Group's mainline water supply business, and to bring about an efficient use of water resources in local markets as well, thereby fulfilling the Group's social mission to improve and foster China's water resources renewability, and to promote her sustainable development. While expanding its business, the Group will also endeavor to improve its corporate governance capability and to enhance the overall value of the enterprise, thus laying even more solid foundation for long-term development in the course of rapid development.

## | Chairman's Statement

### MAJOR ACQUISITIONS

During the year, the Company and 重慶僑立水務（集團）有限公司 (Chongqing Global Credit Water (Group) Company Limited) ("Global Credit"), 林華東 (Mr. Lin Hua Dong) ("Mr. Lin") and 陳維斌 (Mr. Chen Wei Bin) ("Mr. Chen") (collectively "the Vendors") entered into an agreement pursuant to which the Company conditionally agreed to acquire the entire registered capital of 永川僑立水務有限公司 (Yongchuan Global Credit Water Company Limited) ("Yongchuan Global") and the 10% of the registered capital of 重慶僑立市政設施工程有限公司 (Chongqing Qiaoli City Facilities Engineering Company Limited) ("Chongqing Qiaoli") from the Vendors for a total consideration of RMB105.5 million. Yongchuan Global is principally engaged in water supply business in Yongchuan, Chongqing, the PRC. Chongqing Qiaoli, a 90% owned subsidiary of Yongchuan Global, is principally engaged in city facility engineering work and water pipe maintenance and repair.

During the year, the Group and 山水控股有限責任公司 entered into an agreement pursuant to which the Group agreed to acquire the entire equity interest in 嵊州市水電開發有限公司 ("嵊州水電") at a cash consideration of RMB129,234,000. The principal activity of 嵊州水電 is the holding of 11.34% equity interest in Qian Jiang Water Resources Development Co., Limited.

Further details of which are included in note 36(a) and 36(b).

### CAPITAL RAISING

On 22 June 2006, DBS Bank (Hong Kong) Limited subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK\$260 million. On 14 July 2006, DBS Bank (Hong Kong) Limited further subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK\$40 million. The net proceeds from the subscription of convertible bonds were approximately HK\$286 million (after expenses) which will be used wholly for investment in water supply and/or water related projects in China. As of the balance sheet date, the net proceeds was used for investment in water supply and/or water related projects in China.

On 15 and 18 December 2006, 13 subscribers together subscribed for a total of 167,212,400 new ordinary shares of the Company at a price of HK\$2.73 per share. The net proceeds from the subscription of new shares was approximately HK\$450.4 million (after expenses) which was intended to be used as general working capital and for investing in water supply and/or water related business projects in the China. As of the balance sheet date, approximately HK\$260 million was used for investing in water supply and/or water related business projects in the China and the remaining balance of HK\$190.4 million being placed in bank balances.

On 30 March 2007, a shareholder of the Company, Asset Full Resources Limited ("AFRL") entered into a placing agreement with Credit Suisse (Hong Kong) Limited for the sale and purchase of 14,095,940 ordinary shares of the Company owned by AFRL at a price of HK\$3.33 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 14,095,940 new ordinary shares of the Company at a price of HK\$3.33 per share. The net proceeds from the subscription of new shares was approximately HK\$46.7 million (after expenses) which was intended to be used as general working capital.

During the year ended 31 March 2007, the subscription rights attaching to 17,000,000, 40,000,000, 17,700,000 and 1,100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.41, 0.72, 1.16 and 1.45 per share respectively, resulting in the issue of aggregate of 75,800,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$57,897,000 (before expenses).



# Chairman's Statement |

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group has total cash and bank balances of approximately HK\$520.3 million (2006: HK\$235 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 43.2% (2006: 36.1%) as at 31 March 2007. The current ratio is 1.65 times (2006: 2.27 times).

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 2007, the Group has employed approximately 2,550 staff. Most of them stationed in China 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

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

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## PLEDGE OF ASSETS

The Group's bank loans at 31 March 2007 were secured by:

- (a) pledge of water revenue of certain subsidiaries;
- (b) guarantees by You Tao and Liu Hua Dong (senior management of certain subsidiaries), 江西省水利水電開發總公司, 新余市財政局 and 河南省四方藥業有限公司. The Group has not recognised the financial impact in respect of these guarantees as their fair value cannot be reliably measured and no transaction price was recorded.;
- (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2007 was HK\$82,540,000;
- (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2007 was HK\$13,764,000; and
- (e) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2007 was HK\$130,000,000.

## CONTINGENT LIABILITIES

As at 31 March 2007, the Group did not have any material contingent liabilities.

## | Chairman's Statement

### 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 2007

# Directors' and Senior Management Biographical Details |

## DIRECTORS

### Executive Directors

**Mr. Duan Chuan Liang**, aged 44, 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 68, 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 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 55, holds a doctorate degree in Economics from the Nankai University of the People's Republic of China. He was the former chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited. From 1984 to 1995, Mr. Wu has also worked for the Industrial and Commercial Bank of China as president of its Shenzhen branch. He joined the Group in February 2006.

**Mr. Chen Guo Ru**, aged 61, 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 52, 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 66, was graduated from Liaoning Agriculture University. He was the vice minister of Ministry of Water Resources of PRC from 1991 until his retirement in June 2001. Mr. Zhou has over 11 years' experience in the development and construction of PRC water resources. He joined the Group in October 2004.

# | Directors' and Senior Management Biographical Details

## DIRECTORS (Continued)

### Independent Non-executive Directors

**Ms. Huang Shao Yun**, aged 52, is the Financial Controller of Beijing Water Conservancy Material Supply Company. Ms. Huang graduated from Beijing Commercial College with a diploma in accountancy. Ms. Huang is an assistant accountant in the PRC. Ms. Huang has over 35 years of accounting experience. She joined the Group in July 2003.

**Ms. Liu Dong**, aged 39, 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 44, obtained a Master Degree in Business Administration from the University of San Francisco, USA and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of Hong Kong Institute of Certified Chartered Accountant. He has over 20 years experience in auditing, taxation, and financial management of various listed companies. He was an executive director and Chief Financial Officer of a listed company in the Main Board of the Hong Kong Stock Exchange and a Chief Financial Officer of a listed company in GEM of the Hong Kong Stock Exchange. He joined the Group in March 2007.

**Mr. Ong King Keung**, aged 31, is the chief financial officer of a company listed on the Main Board of the Hong Kong Stock Exchange and a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Ong graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy in 1998 and worked at an international accounting firm from January 2000 to July 2004. From September 2004 to November 2005, Mr. Ong was the assistant financial controller of various listed companies in Hong Kong. From November 2005 to June 2006, Mr. Ong was a senior management member of Hunan Nonferrous Metals Corporation Limited. He joined the Group in March 2007.

## SENIOR MANAGEMENT

**Mr. Du Lin Dong**, aged 39, is the General Manager of the Company. Mr. Du is the former managing director of Beijing Huaxin Shiji Investment Company Limited and the former director of Xin Shadai Investment Company Limited. He joined the Group in November 2004.

**Mr. Tsang Chung Sing, Edward**, aged 52, is the Deputy General Manager and Chief Financial Officer of the Company. Mr. Tsang is a holder of a Bachelor's degree in Commerce and a Master's degree in Business Accounting and is a member of the Hong Kong Institute of Certified Public Accountants and Certified Practising Accountants of Australia. He is the former chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange and the Chief Financial Officer of Guangdong Yue Gang Water Supply Company Limited, a company which supplies raw water to Hong Kong. He is a professional accountant with over 21 years' experience in auditing and finance. He joined the Group in December 2005.

**Mr. Tam Chun Yip**, aged 32, is the qualified accountant and company secretary of the Company. Mr. Tam graduated from the Hong Kong University of Science & Technology and is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He was an accountant in an international accounting firm in Hong Kong for 5 years. He joined the Group in September 2003.

# Corporate Governance Report |

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

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

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

	Notes	Meetings Attended/(Held)		
		Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>				
Mr. Duan Chuan Liang ( <i>Chairman</i> )		48/(48)	N/A	N/A
Mr. Li Ji Sheng	1	0/(0)	N/A	N/A
Mr. Chen Guo Ru	2	48/(48)	N/A	N/A
<i>Non-executive directors</i>				
Mr. Chen Guo Ru	2	0/(0)	N/A	N/A
Mr. Zhao Hai Hu		12/(48)	N/A	N/A
Mr. Zhou Wen Zhi		1/(48)	N/A	N/A
Mr. Wu Jiesi		1/(48)	N/A	N/A
Mr. Chiu Shun Pui, Andrew	3	0/(16)	N/A	N/A
<i>Independent non-executive directors</i>				
Ms. Huang Shao Yun		3/(3)	2/(2)	1/(1)
Ms. Liu Dong	4	0/(1)	0/(0)	0/(0)
Mr. Chau Kam Wing	5	1/(1)	0/(0)	0/(0)
Mr. Ong King Keung	6	1/(1)	0/(0)	0/(0)
Mr. Chan Chi Shing	7	3/(3)	2/(2)	1/(1)
Mr. Chen Lizhong	8	3/(3)	2/(2)	1/(1)

# | Corporate Governance Report

## Notes:

1. Appointed as Executive director on 25 May 2007
2. Re-designed as non-executive director on 25 May 2007
3. Resigned as Non-executive director on 14 July 2006
4. Appointed as independent non-executive director on 5 February 2007
5. Appointed as independent non-executive director and chairman of Audit Committee and Remuneration Committee on 30 March 2007
6. Appointed as independent non-executive director on 30 March 2007
7. Resigned as independent non-executive director and chairman of Audit Committee and Remuneration Committee on 30 March 2007
8. Resigned as independent non-executive director on 5 February 2007

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

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

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

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

# Corporate Governance Report |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

## TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

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

## AUDIT COMMITTEE

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

The Audit Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code provision. For the year under review, the Audit Committee held two meetings included the review of the final results for the year ended 31 March 2006 and the interim accounts for the six months ended 30 September 2006 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.

# | Corporate Governance Report

## **NOMINATION OF DIRECTORS**

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

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

## **INTERNAL CONTROL**

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

## **AUDITORS' REMUNERATION**

Grant Thornton has been appointed as the auditors of the Company on 12 June 2006 following the resignation of RSM Nelson Wheeler on 10 May 2006. Total auditors' remuneration for the year ended 31 March 2007 amounted to HK\$2,930,000 (2006: HK\$850,000). HK\$Nil (2006: HK\$935,000) was paid for other non-audit services provided by RSM Nelson Wheeler for the Company and its subsidiaries during the year. HK\$1,060,000 (2006: HK\$Nil) was paid for other non-audit services provided by Grant Thornton to the Company and its subsidiaries during the year.

## **DIRECTORS' SECURITIES TRANSACTIONS**

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



# Corporate Governance Report |

## 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.

# | Directors' Report

The directors herein present their report and the audited financial statement of the Company and of the Group for the year ended 31 March 2007.

## **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 16 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 2007 is set out in note 6 to the financial statements.

## **FINANCIAL SUMMARY**

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 112 of this annual report.

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 110. The directors do not recommend the payment of any dividend in respect of the year.

## **PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY**

Details of movements in the property, plant and equipment, and investment property of the Group during the year are set out in notes 13 and 15 to the financial statements, respectively. Further details of the Group's investment property is set out on page 111.

## **SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS**

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 33, 34 and 31 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 35 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 35 to the financial statements.

# Directors' Report |

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review and excluding the gain of HK\$23.2 million arising on the initial recognition of biological assets at fair value less estimated point-of-sale costs under HKAS 41, sale to the Group's five largest customers accounted for approximately 12.7% of the total sales for the year and sales to the largest customer included therein amounted to approximately 6.4%. Purchases from the Group's five largest suppliers accounted for approximately 28.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 11.7%.

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 (appointed on 25 May 2007)

Mr. Chen Guo Ru (re-designated as non-executive director on 25 May 2007)

### Non-executive directors

Mr. Chen Guo Ru (re-designated as non-executive director on 25 May 2007)

Mr. Wu Jiesi

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi

Mr. Chiu Shui Pui, Andrew (resigned on 14 July 2006)

### Independent non-executive directors

Ms. Huang Shao Yun

Ms. Liu Dong (appointed on 5 February 2007)

Mr. Chau Kam Wing (appointed on 30 March 2007)

Mr. Ong King Keung (appointed on 30 March 2007)

Mr. Chan Chi Shing (resigned on 30 March 2007)

Mr. Chen Lizhong (resigned on 5 February 2007)

In accordance with clause 87 of the Company's Bye-laws, Mr. Li Ji Sheng, Ms. Liu Dong, Mr. Chau Kam Wing, Mr. Ong King Keung and Ms. Huang Shao Yun 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' Report

## DIRECTORS' SERVICE CONTRACTS

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

As at 31 March 2007, saved for Mr. Wu's service contract, none of the Directors has entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

## DIRECTORS' INTEREST IN CONTRACTS

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

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO") which had been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listing Companies to be notified to the Company and the Stock Exchange were as follows:

### (a) Shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note)	Corporate and personal	145,162,301	–	12.20%
Mr. Chen Guo Ru	Personal	6,540,000	–	0.55%
Mr. Zhao Hai Hu	Personal	1,900,000	–	0.16%

*Note:* These 145,162,301 Shares consist of 105,862,301 Shares held by Asset Full Resources Limited, a company wholly and beneficially owned by Duan Chuan Liang, and 39,300,000 Share held by him personally.

## Directors' Report |

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

#### (b) Underlying shares

Name of Director	Capacity/ Nature of interest	Nature of Shares		Approximately percentage of shareholding in the Company	
		Long position (Note)	Short position	Long position	Short position
Mr. Wu Jiesi	Personal	6,000,000	–	0.50%	0%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.07%	0%

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

- (c) Mr Li Ji Sheng is interested in RMB1,000,000 representing 0.91% of the equity interest of 江河水務投資有限公司 (Foundation Water Affairs Investment Co. Ltd.), a non-wholly owned subsidiary of the Company.

### SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 34 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 2007, 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 2007	Price per share to be paid on exercise of options HK\$	Approximate percentage of shareholding %
Mr. Zhou Wen Zhi	3 January 2006	870,000	0.41	0.07
Mr. Wu Jiesi	29 March 2006	6,000,000	1.45	0.50

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' Report

### 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	
Asset Full Resources Limited	Beneficial	105,862,301	–	8.90%
L-R Global Partners, L.P.	Beneficial	111,040,000	–	9.33%
Janus Capital Management LLC	Beneficial	95,552,400	–	8.03%
Atlantis Investment Management Limited	Beneficial	74,000,000	–	6.22%
Montpelier Asset Management Limited	beneficial	83,070,000	–	6.98%

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

Save as disclosed above, as at 31 March 2007, 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 16 November 2006, a subsidiary of the Company, namely China Water Group Limited entered into an agreement with Colour Hill Group Limited to acquire the remaining 30% of the issued share capital of China Environmental Water Holdings Limited ("CEWHL") at a total consideration of HK\$19,200,000. Following the completion of this transaction during the year, CEWHL became a wholly-owned subsidiary of the Group.

### RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 41 to the financial statements.

# Directors' Report |

## **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 2007.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 42 to the financial statements.

## **AUDITORS**

RSM Nelson Wheeler were the auditors of the Company for the years ended 31 March 2004 and 2005. The financial statements of the Company for those years were audited by RSM Nelson Wheeler. Grant Thornton were appointed as the Company's auditors on 12 June 2006 to fill the casual vacancy arising from the resignation of RSM Nelson Wheeler on 10 May 2006. The financial statements of the Company for the years ended 31 March 2006 and 2007 were audited by Grant Thornton, who will retire and a resolution to re-appoint Grant Thornton 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 2007

# | Independent Auditors' Report

Certified Public Accountants  
Member of Grant Thornton International

**Grant Thornton**   
**均富會計師行**

## 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 25 to 110, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE 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.



# Independent Auditors' Report |

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Grant Thornton**

*Certified Public Accountants*

13th Floor, Gloucester Tower

The Landmark

15 Queen's Road Central

Hong Kong

27 July 2007

## | Consolidated Income Statement

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Revenue</b>	5	<b>140,344</b>	52,901
Cost of sales		<b>(82,186)</b>	(31,178)
<b>Gross profit</b>		<b>58,158</b>	21,723
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs		<b>23,241</b>	20,451
Valuation surplus on investment property		<b>40,890</b>	–
Other income	5	<b>151,274</b>	4,517
Selling and distribution costs		<b>(12,267)</b>	(3,055)
Administrative expenses		<b>(75,032)</b>	(29,287)
Equity-settled share options expenses		–	(30,532)
Other operating expenses		<b>(14,763)</b>	(7,707)
(Loss)/Gain on disposal of subsidiaries		<b>(357)</b>	3,017
Write-back of impairment loss on property, plant and equipment		–	2,740
<b>Profit/(Loss) from operation</b>	7	<b>171,144</b>	(18,133)
Finance costs	8	<b>(19,475)</b>	(2,120)
Share of results of associates		<b>9</b>	–
<b>Profit/(Loss) before income tax</b>		<b>151,678</b>	(20,253)
Income tax expense	9	<b>(48,734)</b>	(4,757)
<b>Profit/(Loss) for the year</b>		<b>102,944</b>	(25,010)
<b>Attributable to:</b>			
Equity holders of the Company	10	<b>63,379</b>	(38,590)
Minority interests		<b>39,565</b>	13,580
<b>Profit/(Loss) for the year</b>		<b>102,944</b>	(25,010)
<b>Earnings/(Loss) per share attributable to equity holders of the Company during the year</b>	11	<b>HK cents</b>	HK cents
– Basic		<b>6.6</b>	(6.7)
– Diluted		<b>6.1</b>	N/A

# Consolidated Balance Sheet |

As at 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	715,372	222,988
Prepaid land lease payments	14	105,314	3,875
Investment property	15	139,000	–
Interests in associates	17	975	–
Other financial assets	18	41,506	–
Goodwill	19	80,350	–
Other intangible assets	20	130,000	–
Deposits	21	131,811	5,798
		<b>1,344,328</b>	<b>232,661</b>
<b>Current assets</b>			
Inventories - Properties under development	22	7,650	–
Biological assets	23	–	–
Inventories	24	18,117	8,165
Trade and bills receivables	25	23,476	7,749
Other financial assets	18	228,975	–
Due from minority equity holders of subsidiaries	29	6,573	3,487
Due from former subsidiaries	29	8,054	14,601
Due from associates	29	10,128	–
Prepayments, deposits and other receivables		91,614	28,765
Bank balance held in escrow		94	–
Bank and cash balances	26	520,281	235,036
		<b>914,962</b>	<b>297,803</b>
<b>Current liabilities</b>			
Trade payables	27	30,903	11,960
Accrued liabilities, deposits received and other payables		197,841	54,421
Borrowings	28	129,235	58,621
Due to a director	29	5,652	2,294
Due to minority equity holders of subsidiaries	29	185,761	1,381
Provision for tax		6,480	2,492
		<b>555,872</b>	<b>131,169</b>
<b>Net current assets</b>		<b>359,090</b>	<b>166,634</b>
<b>Total assets less current liabilities</b>		<b>1,703,418</b>	<b>399,295</b>

## | Consolidated Balance Sheet

As at 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Non-current liabilities</b>			
Deferred government grants	30	11,856	–
Borrowings	28	299,420	60,106
Convertible bonds	31	64,900	–
Deferred tax liabilities	32	42,945	–
		<u>419,121</u>	<u>60,106</u>
<b>Net assets</b>		<u><u>1,284,297</u></u>	<u><u>339,189</u></u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	33	11,898	8,298
Reserves		<u>1,032,301</u>	<u>233,032</u>
		<u>1,044,199</u>	<u>241,330</u>
<b>Minority interests</b>		<u>240,098</u>	<u>97,859</u>
<b>Total equity</b>		<u><u>1,284,297</u></u>	<u><u>339,189</u></u>

**Duan Chuan Liang**  
Director

**Li Ji Sheng**  
Director

# Consolidated Statement of Changes in Equity |

For the year ended 31 March 2007

	Equity attributable to equity holders of the Company													
	Share capital	Share premium account	Capital reserve	Contributed surplus	Property, plant and equipment revaluation reserve	Exchange fluctuation reserve	Share option reserve	Convertible bond equity reserve	Other reserve	Statutory reserves	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2005	4,813	86,762	340	70,725	1,298	-	-	-	-	-	(128,888)	35,050	7,476	42,526
Equity-settled share option arrangements	-	-	-	-	-	-	30,532	-	-	-	-	30,532	-	30,532
Placing and subscription of new shares	3,029	203,101	-	-	-	-	-	-	-	-	-	206,130	-	206,130
Share options exercised	456	22,546	-	-	-	-	(4,290)	-	-	-	-	18,712	-	18,712
Share issue expenses	-	(5,608)	-	-	-	-	-	-	-	-	-	(5,608)	-	(5,608)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	15,429	15,429
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(4,425)	(4,425)
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	67,105	67,105
Impairment of property, plant and equipment eliminated against property, plant and equipment revaluation reserve	-	-	-	-	(1,298)	-	-	-	-	-	-	(1,298)	-	(1,298)
Currency translation	-	-	-	-	-	(3,598)	-	-	-	-	-	(3,598)	(1,306)	(4,904)
Net income/(expense) recognised directly in equity	-	-	-	-	(1,298)	(3,598)	-	-	-	-	-	(4,896)	(1,306)	(6,202)
Loss for the year	-	-	-	-	-	-	-	-	-	-	(38,590)	(38,590)	13,580	(25,010)
Total recognised income and expense for the year	-	-	-	-	(1,298)	(3,598)	-	-	-	-	(38,590)	(43,486)	12,274	(31,212)
Balance at 31 March 2006	8,298	306,801	340	70,725	-	(3,598)	26,242	-	-	-	(167,478)	241,330	97,859	339,189
Balance at 1 April 2006	8,298	306,801	340	70,725	-	(3,598)	26,242	-	-	-	(167,478)	241,330	97,859	339,189
Issue of convertible bonds	-	-	-	-	-	-	-	10,413	-	-	-	10,413	-	10,413
Placing and subscription of new shares	1,672	454,818	-	-	-	-	-	-	-	-	-	456,490	-	456,490
Share options exercised	758	77,615	-	-	-	-	(20,476)	-	-	-	-	57,897	-	57,897
Convertible bonds exercised	1,170	229,022	-	-	-	-	-	(8,087)	-	-	-	222,105	-	222,105
Share issue expenses	-	(5,717)	-	-	-	-	-	-	-	-	-	(5,717)	-	(5,717)
Arising from deemed acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(11,837)	(11,837)
Arising from disposal of subsidiaries	-	-	(340)	-	-	-	-	-	-	-	-	(340)	(432)	(772)
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	119,828	119,828
Additional interest in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	(11,636)	-	-	(11,636)	(7,564)	(19,200)
Currency translation	-	-	-	-	-	10,278	-	-	-	-	-	10,278	2,679	12,957
Net income/(expense) recognised directly in equity	-	-	-	-	-	10,278	-	-	-	-	-	10,278	2,679	12,957
Profit for the year	-	-	-	-	-	-	-	-	-	-	63,379	63,379	39,565	102,944
Total recognised income and expense for the year	-	-	-	-	-	10,278	-	-	-	-	63,379	73,657	42,244	115,901
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	2,045	(2,045)	-	-	-
Balance at 31 March 2007	11,898	1,062,539	-	70,725	-	6,680	5,766	2,326	(11,636)	2,045	(106,144)	1,044,199	240,098	1,284,297

# Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Cash flows from operating activities</b>			
Profit/(Loss) before taxation		<b>151,678</b>	(20,253)
Adjustments for:			
Finance costs	8	<b>19,475</b>	2,120
Share of results of associates		<b>(9)</b>	–
Interest income	5	<b>(10,319)</b>	(1,378)
Amortisation of deferred government grants	5	<b>(344)</b>	–
Depreciation	7	<b>22,504</b>	6,710
Amortisation of prepaid land lease payments	7	<b>774</b>	82
(Gain)/Loss on disposal of property, plant and equipment	7	<b>(85)</b>	1,318
Write off on property, plant and equipment	7	<b>762</b>	–
Impairment loss on property, plant and equipment	7	–	163
Write-back of impairment loss on property, plant and equipment	7	–	(2,740)
Valuation surplus on investment properties		<b>(40,890)</b>	–
Equity-settled share options expenses		–	30,532
Excess over the cost of a business combination recognised in the income statement	5	<b>(4,716)</b>	(1,154)
Loss/(Gain) on disposal of subsidiaries		<b>357</b>	(3,017)
Fair value gain on financial assets at fair value through profit or loss	5	<b>(102,266)</b>	(410)
Impairment loss on due from former subsidiaries	7	<b>5,015</b>	–
Impairment loss on other receivables	7	<b>89</b>	–
Inventories written off	7	<b>989</b>	–
Operating profit before working capital changes		<b>43,014</b>	11,973
Decrease in financial assets at fair value through profit or loss		<b>7,185</b>	410
Increase in inventories - properties under development		<b>(7,650)</b>	–
Increase in inventories		<b>(6,774)</b>	(2,472)
Increase in trade and bills receivables		<b>(3,412)</b>	(13,581)
Decrease/(Increase) in amount due from former subsidiaries		<b>1,532</b>	(14,601)
(Increase)/Decrease in prepayments, deposits and other receivables		<b>(37,133)</b>	20,126
Increase in trade payables		<b>8,221</b>	10,169
Increase in accrued liabilities, deposits received and other payables		<b>22,238</b>	9,223
<b>Cash generated from operations</b>		<b>27,221</b>	21,247
Interest paid on bank and other borrowings		<b>(9,886)</b>	(1,932)
Interest on promissory notes and convertible bonds		<b>(2,025)</b>	(188)
Income taxes paid		<b>(1,960)</b>	(566)
<b>Net cash generated from operating activities</b>		<b>13,350</b>	18,561

# Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Cash flows from investing activities</b>			
Interest received		10,319	1,378
Purchase of property, plant and equipment		(82,251)	(16,406)
Deposits paid		(131,811)	(5,798)
Increase in bank balance held in escrow		(94)	–
Proceeds from disposal of property, plant and equipment		655	3
Land lease payments prepaid		(23,638)	–
Purchase of an investment property		(98,110)	–
Purchase of sewage treatment concession rights		(80,000)	–
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	36	(226,652)	22,690
Acquisition of minority interests		(19,200)	–
Disposal of subsidiaries (net of cash and cash equivalent disposed)	37	–	(665)
Disposal of associates		–	1,200
Purchases of available-for-sale financial assets		(39,826)	–
Government grants received		1,000	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(689,608)</b>	<b>2,402</b>
<b>Cash flows from financing activities</b>			
Redemption of convertible notes		–	(1,061)
Repayment of promissory notes		–	(10,480)
Proceeds from issue of convertible bonds	31	300,000	–
Convertible bonds issue expenses		(13,979)	–
Proceeds from issue of new shares	33	514,387	224,842
Share issue expenses		(5,717)	(5,608)
Repayment to a director		(2,415)	(2,457)
Repayment to minority equity holders of subsidiaries of the Company		(25,562)	(13,487)
Drawdown of bank loans		251,800	10,016
Repayment of bank loans		(47,930)	(6,544)
Drawdown of other borrowings		6,450	8,721
Repayment of other borrowings		(39,386)	(16,918)
Injection by minority equity holders of subsidiaries of the Company		16,047	13,138
Capital element of finance lease payments		(837)	(248)
<b>Net cash generated from financing activities</b>		<b>952,858</b>	<b>199,914</b>
<b>Net increase in cash and cash equivalents</b>		<b>276,600</b>	<b>220,877</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>235,036</b>	<b>20,239</b>
<b>Effect of foreign exchange rates, net</b>		<b>8,645</b>	<b>(6,080)</b>
<b>Cash and cash equivalents at end of year</b>		<b>520,281</b>	<b>235,036</b>
<b>Analysis of cash and cash equivalents</b>			
Bank and cash balances		520,281	235,036

## | Balance Sheet

As at 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	1,611	1,080
Interests in subsidiaries	16	559,515	57,437
Deposits	21	40,000	-
		<b>601,126</b>	<b>58,517</b>
<b>Current assets</b>			
Due from subsidiaries	16	165,429	46,032
Prepayments, deposits and other receivables		6,123	973
Other financial assets	18	5,835	-
Bank balance held in escrow		94	-
Bank and cash balances	26	269,022	149,502
		<b>446,503</b>	<b>196,507</b>
<b>Current liabilities</b>			
Due to subsidiaries	16	4,805	5,538
Accrued liabilities and other payables		26,050	7,699
Borrowings	28	-	245
Provision for tax		-	-
		<b>30,855</b>	<b>13,482</b>
<b>Net current assets</b>		<b>415,648</b>	<b>183,025</b>
<b>Total assets less current liabilities</b>		<b>1,016,774</b>	<b>241,542</b>
<b>Non-current liabilities</b>			
Borrowings	28	-	592
Convertible bonds	31	64,900	-
		<b>64,900</b>	<b>592</b>
<b>Net assets</b>		<b>951,874</b>	<b>240,950</b>
<b>EQUITY</b>			
Share capital	33	11,898	8,298
Reserves	35	939,976	232,652
<b>Total equity</b>		<b>951,874</b>	<b>240,950</b>

**Duan Chuan Liang**  
Director

**Li Ji Sheng**  
Director



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 1. CORPORATE INFORMATION

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

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

The Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Company’s principal place of business was changed from Room 2606, 26<sup>th</sup> Floor, West Tower, Shun Tak Centre, No. 168-200 Connaught Road Central, Sheung Wan, Hong Kong to Suite 6408, 64<sup>th</sup> 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 16 to the financial statements.

The financial statements on pages 25 to 110 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 April 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 April 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Company’s and the Group’s accounting policies, but resulted in additional disclosures.

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

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group’s financial statements.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC)-Int 11	Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>7</sup>

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

Notes:

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis except for investment property, biological assets and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

### 3.2 Basis of consolidation

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

### 3.3 Subsidiaries

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

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

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

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.3 Subsidiaries (Continued)

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

### 3.4 Joint Ventures

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

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

A joint venture is treated as:

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Associates

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

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

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

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

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.6 Foreign currency translation

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

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

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

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

### 3.7 Revenue

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

- (i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;
- (ii) Revenue from hotel 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;

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.7 Revenue (Continued)

- (iv) Revenue from sewage treatment is recognised according to price and capacity as agreed with the regulatory authority in the People's Republic of China (the "PRC" excluding Hong Kong);
- (v) Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably; and
- (vi) Interest income is recognised on a time-proportion basis using the effective interest method.

### 3.8 Biological assets

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

### 3.9 Goodwill

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

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

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

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.10 Property, plant and equipment

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

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

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

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

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

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

### 3.11 Prepaid land lease payments

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.12 Investment property

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

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

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

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

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

### 3.13 Intangible assets (other than goodwill)

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

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives of 25 years. Both period and method of amortisation are reviewed annually.

### 3.14 Impairment of assets

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

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



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.14 Impairment of assets (Continued)

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

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

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

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

### 3.15 Leases

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

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

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.15 Leases (Continued)

#### (ii) *Assets acquired under finance leases*

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

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

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

#### (iii) *Operating lease charges as the lessee*

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

### 3.16 Financial assets

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

#### *Classification of financial assets*

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

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

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.16 Financial assets (Continued)

#### *Classification of financial assets (Continued)*

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

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

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

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

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

#### (ii) Loans and receivables

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

#### (iii) Available-for-sale financial assets

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.16 Financial assets (Continued)

#### *Classification of financial assets (Continued)*

#### (iii) Available-for-sale financial assets (Continued)

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

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

#### *Recognition and derecognition of financial assets*

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

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

#### *Impairment of financial assets*

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

#### (i) Loans and receivables

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.16 Financial assets (Continued)

#### *Impairment of financial assets (Continued)*

#### (ii) Available-for-sale financial assets

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

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

#### (iii) Financial assets carried at cost

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

### 3.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

### 3.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.18 Accounting for income taxes (Continued)

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

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

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

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

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

### 3.19 Cash and cash equivalents

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

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

### 3.20 Share capital

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.21 Employee benefits

#### (i) Retirement benefit obligations

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

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

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

#### (ii) Share-based employee compensation

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

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

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

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.22 Financial liabilities

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

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

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

(i) *Trade and other payables*

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

(ii) *Borrowings*

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

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

(iii) *Convertible bonds that contain an equity component*

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

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



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.22 Financial liabilities (Continued)

#### (iii) *Convertible bonds that contain an equity component (Continued)*

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

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

#### (iv) *Finance lease liabilities*

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

### 3.23 Related parties

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

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.24 Government grants

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

### 3.25 Borrowing costs

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

### 3.26 Provisions and contingent liabilities

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

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

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

### 3.27 Properties under development

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

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

No depreciation is provided on properties held under development.

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.28 Segment reporting

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

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

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (i) Depreciation and amortisation

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

### (ii) Impairment of receivables

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

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

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (iv) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### (v) Valuation for biological assets

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

### (vi) Estimate fair value of investment properties

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

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

### (vii) 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.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that will be subsequently issued. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (viii) 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.

## 5. REVENUE AND OTHER INCOME

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

	Group	
	2007 HK\$'000	2006 HK\$'000
<b>Revenue :</b>		
Sales of goods	36,369	18,777
Water supply	55,790	15,042
Water supply related installation and construction revenue	41,712	9,303
Sewage treatment	–	9,125
Hotel and rental income	6,398	–
Others	75	654
	140,344	52,901
<b>Other income:</b>		
Excess over the cost of a business combination recognised in the income statement (note 36(a))	4,716	1,154
Interest income	10,319	1,378
Government grants and subsidies <sup>#</sup>	25,747	–
Amortisation of deferred government grants	344	–
Fair value gain on financial assets at fair value through profit or loss	102,266	410
Gain on disposal of property, plant and equipment	85	–
Miscellaneous income	7,797	1,575
	151,274	4,517

<sup>#</sup> Government grants and subsidies mainly comprised (i) unconditional monetary award of RMB13,480,000 from relevant authorities in the PRC in respect of the Group's significant contribution in environmental protection arising from its participation in sea buckthorn's business and (ii) unconditional subsidies of RMB8,200,000 for subsidising the Group's water supply business.

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 6. SEGMENT INFORMATION

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

- (i) "Water" segment, which is presented as "city water supply" and "sewage treatment" segments, involves the provision of water supply and sewage treatment;
- (ii) "Sea buckthorn related business" segment involves cultivation, manufacture and sale of sea buckthorn seedling and sea buckthorn based products;
- (iii) "Property development and investment" segment involves development of properties for sale and investment in property for capital appreciation;
- (iv) "Electronic products" segment, which involves the manufacture and trading of electronics products; and
- (v) "Concrete products and others" segment involves manufacture and sale of concrete products and others.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 6. SEGMENT INFORMATION (Continued)

### Business segments

For the financial year ended 31 March 2007

	City water supply HK\$'000	Sewage treatment HK\$'000	Sea buckthorn related business HK\$'000	Property development and investment HK\$'000	Electronic products HK\$'000	Concrete products and others HK\$'000	Consolidated HK\$'000
Segment revenue							
External customers	55,865	-	5,609	-	-	37,158	98,632
Installation income	41,712	-	-	-	-	-	41,712
Revenue	97,577	-	5,609	-	-	37,158	140,344
Other income	10,810	-	36,962	135	475	200	48,582
Total	108,387	-	42,571	135	475	37,358	188,926
Segment results	26,074	(701)	20,751	(1,562)	(107)	185	44,640
Interest income							10,319
Unallocated corporate income							115,614
Unallocated corporate expense							(39,962)
Valuation surplus on investment property				40,890			40,890
Loss on disposal of subsidiaries							(357)
Profit from operation							171,144
Finance costs							(19,475)
Share of results of associates	9						9
Profit before income tax							151,678
Income tax expense							(48,734)
Profit for the year							102,944

## | Notes to the Financial Statements

For the year ended 31 March 2007

## 6. SEGMENT INFORMATION (Continued)

## Business segments (Continued)

As at 31 March 2007

	City water supply HK\$'000	Sewage treatment HK\$'000	Sea buckthorn related business HK\$'000	Property development and investment HK\$'000	Electronic products HK\$'000	Concrete products and others HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	1,098,167	164,626	84,010	147,830	363	35,436	1,530,432
Interests in associates	975	-	-	-	-	-	975
	<u>1,099,142</u>	<u>164,626</u>	<u>84,010</u>	<u>147,830</u>	<u>363</u>	<u>35,436</u>	<u>1,531,407</u>
Unallocated corporate assets							<u>727,883</u>
<b>Consolidated total assets</b>							<u><u>2,259,290</u></u>
<b>LIABILITIES</b>							
Segment liabilities	<u>694,743</u>	<u>100,022</u>	<u>19,504</u>	<u>4,354</u>	<u>2</u>	<u>10,898</u>	829,523
Unallocated corporate liabilities							<u>145,470</u>
<b>Consolidated total liabilities</b>							<u><u>974,993</u></u>
<b>Other segment information</b>							
Depreciation and amortisation	18,158	-	1,247	-	15	3,858	23,278
Amortisation of deferred government grants	(344)	-	-	-	-	-	(344)
Capital expenditure	519,610	130,034	32,638	-	-	8,083	690,365
Loss/(Gain) on disposal of property, plant and equipment	15	-	(120)	18	2	-	(85)
Write off on property, plant and equipment	762	-	-	-	-	-	762
Valuation surplus on investments properties	-	-	-	40,890	-	-	40,890
Inventories written off	89	-	900	-	-	-	989
Impairment loss on other receivables	89	-	-	-	-	-	89
Impairment loss on due from former subsidiaries	-	5,015	-	-	-	-	5,015



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 6. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

For the financial year ended 31 March 2006

	City water supply HK\$'000	Sewage treatment HK\$'000	Sea buckthorn related business HK\$'000	Electronic products HK\$'000	Concrete products and others HK\$'000	Consolidated HK\$'000
Segment revenue						
External customers	15,042	9,125	6,088	5,970	7,373	43,598
Installation income	9,303	–	–	–	–	9,303
Revenue	24,345	9,125	6,088	5,970	7,373	52,901
Other income	309	8	20,638	351	2	21,308
Total	24,654	9,133	26,726	6,321	7,375	74,209
Segment results	5,937	5,175	16,858	(4,858)	175	23,287
Interest income						1,378
Unallocated corporate income						2,282
Equity-settled share options expenses						(30,532)
Unallocated corporate expense						(20,305)
Gain on disposal of subsidiaries						3,017
Write-back of impairment loss on property, plant and equipment						2,740
Loss from operation						(18,133)
Finance costs						(2,120)
Loss before income tax						(20,253)
Income tax expense						(4,757)
Loss for the year						(25,010)

## | Notes to the Financial Statements

For the year ended 31 March 2007

**6. SEGMENT INFORMATION** (Continued)**Business segments** (Continued)

As at 31 March 2006

	City water supply HK\$'000	Sewage treatment HK\$'000	Sea buckthorn related business HK\$'000	Electronic products HK\$'000	Concrete products and others HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>						
Segment assets	252,569	21,101	70,456	2,808	23,207	370,141
Unallocated corporate assets						160,323
<b>Consolidated total assets</b>						<b>530,464</b>
<b>LIABILITIES</b>						
Segment liabilities	149,621	–	26,595	4,796	4,359	185,371
Unallocated corporate liabilities						5,904
<b>Consolidated total liabilities</b>						<b>191,275</b>
<b>Other segment information</b>						
Depreciation and amortisation	3,472	1,974	287	748	311	6,792
Capital expenditure	136,236	346	8,071	105	17,788	162,546
Impairment loss on property, plant and equipment	–	–	–	163	–	163
Loss on disposal of property, plant and equipment	7	174	–	1,137	–	1,318
Write-back of impairment loss on property, plant and equipment	(2,740)	–	–	–	–	(2,740)

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 6. SEGMENT INFORMATION (Continued)

### Geographical segments

	PRC		HK		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Segment revenue						
Sales to external customer	<b>98,632</b>	39,993	–	3,605	<b>98,632</b>	43,598
Installation income	<b>41,712</b>	9,303	–	–	<b>41,712</b>	9,303
Total	<b>140,344</b>	49,296	–	3,605	<b>140,344</b>	52,901
Segment results	<b>45,679</b>	25,903	<b>(1,039)</b>	(2,616)	<b>44,640</b>	23,287
Other segment information						
Segment assets	<b>1,851,498</b>	368,984	<b>407,792</b>	161,480	<b>2,259,290</b>	530,464
Capital expenditure	<b>690,068</b>	161,429	<b>297</b>	1,117	<b>690,365</b>	162,546

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 7. PROFIT/(LOSS) FROM OPERATION

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold	82,186	31,178
Depreciation	22,504	6,710
Amortisation of prepaid land lease payments	774	82
Operating leases in respect of leasehold land and buildings	2,747	1,375
Auditors' remuneration – current year	2,680	850
– underprovision in prior year	250	–
	2,930	850
Staff costs (excluding directors' remuneration – note 12):		
Salaries and wages	35,369	11,555
Equity-settled share option expenses	–	14,660
Retirement scheme contribution	802	248
	36,171	26,463
Impairment loss on property, plant and equipment	–	163
(Gain)/Loss on disposal of property, plant and equipment	(85)	1,318
Write off on property, plant and equipment	762	–
Write-back of impairment loss on property, plant and equipment	–	(2,740)
Inventories written off (included in other operating expenses)	989	–
Impairment loss on other receivables	89	–
Impairment loss on due from former subsidiaries	5,015	–
	5,015	–

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 8. FINANCE COSTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Interest on bank loans		
– wholly repayable within five years	2,365	1,559
– not wholly repayable within five years	5,738	–
Interest on other borrowings		
– wholly repayable within five years	129	353
– not wholly repayable within five years	1,595	–
Interest on promissory notes and convertible bonds	13,422	188
Interest on finance leases	59	20
<b>Total borrowing costs</b>	<b>23,308</b>	<b>2,120</b>
Less: interest capitalised included in property, plant and equipment	<b>(3,833)</b>	–
	<b>19,475</b>	<b>2,120</b>

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## 9. INCOME TAX EXPENSE

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Current		
– Hong Kong profits tax	–	–
– Overseas taxation	5,789	4,757
	5,789	4,757
Deferred		
– Current year (note 32)	42,945	–
	48,734	4,757

Hong Kong profits tax has not been provided as the Group did not generate any assessable profit arising in Hong Kong during the year (2006: Nil). Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 9. INCOME TAX EXPENSE (Continued)

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Profit/(Loss) before income tax	<b>151,678</b>	(20,253)
Tax at applicable rate of 17.5%	<b>26,544</b>	(3,544)
Tax effect of non-taxable items	<b>(4,100)</b>	(2,313)
Tax effect of non-deductible items	<b>6,756</b>	9,843
Utilisation of tax losses not previously recognised	<b>(104)</b>	(20)
Tax effect of unused tax losses not recognised	<b>6,550</b>	2,408
Tax concession	<b>(11,039)</b>	(5,318)
Tax effect of taxable temporary differences not recognised	<b>830</b>	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>23,297</b>	3,701
Income tax expense for the year	<b>48,734</b>	4,757

- (c) At the balance sheet date, the Group has unused tax losses of HK\$34,177,000 (2006: HK\$11,970,000) available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

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

Of the consolidated profit attributable to the equity holders of the Company of HK\$63,379,000 (2006: loss of HK\$38,590,000), a profit of HK\$64,765,000 (2006: loss of HK\$45,838,000) has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to equity holders of the Company of HK\$63,379,000 (2006: loss of HK\$38,590,000) and on the weighted average of 967,388,163 (2006: 572,500,795) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the equity holders of the Company for the year ended 31 March 2007, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity holders of the Company and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the equity holders of the Company for the year ended 31 March 2007 is based on the profit attributable to the equity holders of the Company of HK\$63,379,000 and on the weighted average of 1,033,795,925 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 967,388,163 used in basic earnings per share calculation and adjusted for the effect of share options issued of 66,407,762.

The diluted loss per share for the year ended 31 March 2006 was not presented as the potential ordinary shares had anti-dilutive effect on loss per share.

The ordinary share transactions or potential ordinary share transactions that occur after the balance sheet date are disclosed in notes 31, 34, 42(a), 42(g) and 42(j) and the effects have not been included in calculations of earnings/(loss) per share above.

## | Notes to the Financial Statements

For the year ended 31 March 2007

## 12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

## (a) Directors emoluments

	Salaries, allowances and benefits		Bonuses	Employee share share option benefits	Retirement scheme contribution	Total
	Fees HK'000	in kind HK'000	HK'000	HK'000	HK\$'000	HK\$'000
<b>2007</b>						
<b>Executive directors</b>						
Mr. Duan Chuan Liang	-	1,388	120	-	12	1,520
Mr. Chen Guo Ru <sup>^</sup>	-	240	-	-	-	240
<b>Non-executive directors</b>						
Mr. Zhao Hai Hu	-	224	-	-	-	224
Mr. Chiu Shun Pui, Andrew (ii)	-	-	-	-	-	-
Mr. Zhou Wen Zhi	-	120	-	-	-	120
Mr. Wu Jiesi	-	60	-	-	-	60
<b>Independent non-executive directors</b>						
Mr. Chen Lizhong (ii)	61	-	-	-	-	61
Ms. Huang Shao Yun	24	-	-	-	-	24
Mr. Chan Chi Shing (ii)	96	-	-	-	-	96
Mr. Chau Kam Wing, Donald (i)	-	-	-	-	-	-
Mr. Ong King Keung (i)	-	-	-	-	-	-
Ms. Liu Dong (i)	11	-	-	-	-	11
	<b>192</b>	<b>2,032</b>	<b>120</b>	<b>-</b>	<b>12</b>	<b>2,356</b>
<b>2006</b>						
<b>Executive directors</b>						
Mr. Duan Chuan Liang	-	1,066	-	11,428	12	12,506
Mr. Chen Guo Ru <sup>#</sup>	-	94	-	376	-	470
Mr. Tsui Chi Kin <sup>*</sup>	-	650	-	-	10	660
<b>Non-executive directors</b>						
Mr. Zhao Hai Hu	-	216	-	235	-	451
Mr. Chiu Shun Pui, Andrew	-	-	-	235	-	235
Mr. Zhou Wen Zhi	-	174	-	94	-	268
Mr. Wu Jiesi <sup>#</sup>	-	10	-	3,504	-	3,514
<b>Independent non-executive directors</b>						
Mr. Chen Lizhong	72	-	-	-	-	72
Ms. Huang Shao Yun	24	-	-	-	-	24
Mr. Chan Chi Shing	96	-	-	-	-	96
	<b>192</b>	<b>2,210</b>	<b>-</b>	<b>15,872</b>	<b>22</b>	<b>18,296</b>



# Notes to the Financial Statements |

For the year ended 31 March 2007

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

### (a) Directors emoluments (Continued)

- (i) Appointed during the year ended 31 March 2007
- (ii) Resigned during the year ended 31 March 2007
- ^ Re-designated as non-executive director with effect from 25 May 2007. On the same date, Mr. Li Ji Sheng was appointed as executive director of the Company
- # Appointed during the year ended 31 March 2006
- \* Resigned during the year ended 31 March 2006

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 March 2007 and 2006.

Details of the share options granted to directors of the Company are set out in note 34 to the financial statements.

### (b) Five highest paid individuals

The five highest paid individuals in the Group during the year included one director (2006: two directors), details of whose emoluments have been disclosed in note (a) above. The emoluments paid to the remaining non-director, highest paid individuals for the year are as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and other benefits	3,095	982
Employee share-based compensation expenses	–	3,612
Retirement scheme contribution	45	12
	<u>3,140</u>	<u>4,606</u>

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

	2007	2006
Nil to HK\$1,000,000	4	–
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	–	1
	<u>–</u>	<u>3</u>

During the years ended 31 March 2007 and 2006, no emoluments were paid by the Group to the directors and the 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.

# Notes to the Financial Statements

For the year ended 31 March 2007

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

	Leasehold buildings	Leasehold improvements	Plant and machineries	Water pipelines	Moulds	Furniture, equipment and motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005								
Cost or valuation	4,888	20	32,449	22,081	14,628	225	4,579	78,870
Accumulated depreciation	(309)	(10)	(3,598)	(1,538)	(3,613)	(112)	-	(9,180)
Accumulated impairment	-	-	(2,204)	(536)	(8,035)	-	-	(10,775)
Net book amount	<u>4,579</u>	<u>10</u>	<u>26,647</u>	<u>20,007</u>	<u>2,980</u>	<u>113</u>	<u>4,579</u>	<u>58,915</u>
Year ended 31 March 2006								
Opening net book amount	4,579	10	26,647	20,007	2,980	113	4,579	58,915
Additions	21,258	6,902	75,967	34,946	87	8,807	14,579	162,546
Acquisition of subsidiaries	3,274	1,030	1,525	11,511	-	1,444	14,644	33,428
Disposals	-	-	(6)	-	(1,093)	(48)	(174)	(1,321)
Transfers	1,061	-	3,863	13,433	-	-	(18,357)	-
Disposal of subsidiaries	(4,196)	(33)	(21,917)	-	-	(161)	-	(26,307)
Impairment eliminated against revaluation reserve	-	-	-	-	(1,298)	-	-	(1,298)
(Impairment)/Write-back of impairment	-	-	2,204	536	-	(163)	-	2,577
Depreciation	(523)	(6)	(3,812)	(1,215)	(687)	(467)	-	(6,710)
Exchange realignment	88	-	568	396	11	8	87	1,158
Closing net book amount	<u>25,541</u>	<u>7,903</u>	<u>85,039</u>	<u>79,614</u>	<u>-</u>	<u>9,533</u>	<u>15,358</u>	<u>222,988</u>
At 31 March 2006								
Cost	27,691	8,106	89,099	87,546	579	10,420	15,358	238,799
Accumulated depreciation	(2,150)	(203)	(4,060)	(7,932)	(579)	(724)	-	(15,648)
Accumulated impairment	-	-	-	-	-	(163)	-	(163)
Net book amount	<u>25,541</u>	<u>7,903</u>	<u>85,039</u>	<u>79,614</u>	<u>-</u>	<u>9,533</u>	<u>15,358</u>	<u>222,988</u>

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Group (Continued)

	Leasehold buildings	Leasehold improvements	Plant and machineries	Water pipelines	Moulds	Furniture, equipment and motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 March 2007</b>								
Opening net book amount	25,541	7,903	85,039	79,614	–	9,533	15,358	222,988
Additions	172,014	3,855	50,139	146,023	–	13,741	75,459	461,231
Acquisition of subsidiaries	7,452	–	1,316	59,365	–	1,697	775	70,605
Disposals	(1,149)	(4)	(88)	(304)	–	(286)	–	(1,831)
Written-off	–	–	(17)	–	–	(745)	–	(762)
Transfers	4,031	–	5,566	34,244	–	47	(43,888)	–
Arising from deemed acquisition of subsidiaries	(11,411)	–	(296)	(11,245)	–	(275)	–	(23,227)
Depreciation	(2,122)	(2,045)	(10,271)	(5,555)	–	(2,511)	–	(22,504)
Exchange realignment	1,023	313	3,388	3,185	–	348	615	8,872
<b>Closing net book amount</b>	<b>195,379</b>	<b>10,022</b>	<b>134,776</b>	<b>305,327</b>	<b>–</b>	<b>21,549</b>	<b>48,319</b>	<b>715,372</b>
<b>At 31 March 2007</b>								
Cost	204,903	12,264	150,588	333,445	–	26,068	48,319	775,587
Accumulated depreciation	(9,524)	(2,242)	(15,812)	(28,118)	–	(4,519)	–	(60,215)
<b>Net book amount</b>	<b>195,379</b>	<b>10,022</b>	<b>134,776</b>	<b>305,327</b>	<b>–</b>	<b>21,549</b>	<b>48,319</b>	<b>715,372</b>

## | Notes to the Financial Statements

For the year ended 31 March 2007

**13. PROPERTY, PLANT AND EQUIPMENT** (Continued)**Company**

	<b>Furniture, equipment and motor vehicles</b>
	HK\$'000
<hr/>	
At 1 April 2005	
Cost	–
Accumulated depreciation	–
	<hr/>
Net book amount	–
	<hr/> <hr/>
Year ended 31 March 2006	
Opening net book amount	–
Additions	1,117
Depreciation	(37)
	<hr/>
Closing net book amount	1,080
	<hr/> <hr/>
At 31 March 2006	
Cost	1,117
Accumulated depreciation	(37)
	<hr/>
Net book amount	1,080
	<hr/> <hr/>
<b>Year ended 31 March 2007</b>	
Opening net book amount	1,080
Additions	1,677
Disposals	(951)
Depreciation	(195)
	<hr/>
<b>Closing net book amount</b>	<b>1,611</b>
	<hr/> <hr/>
<b>At 31 March 2007</b>	
Cost	1,734
Accumulated depreciation	(123)
	<hr/>
<b>Net book amount</b>	<b>1,611</b>
	<hr/> <hr/>
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# Notes to the Financial Statements |

For the year ended 31 March 2007

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

- (a) The Group's leasehold buildings included above are held under medium term leases in the PRC.
- (b) The net book amount of the Group's property, plant and equipment held under finance lease included in the total amount of furniture, equipment and motor vehicles at 31 March 2007 amounted to HK\$Nil (2006: HK\$1,049,000). As at 31 March 2007, the Group's property, plant and equipment at the net book amount of HK\$82,540,000 were pledged to secure banking facilities granted to the Group (note 28).
- (c) Included in construction in progress is net interest capitalised of HK\$3,833,000 (2006: HK\$Nil) at the capitalisation rate of 6.5%.

## 14. PREPAID LAND LEASE PAYMENTS – GROUP

	2007 HK\$'000	2006 HK\$'000
At beginning of the year		
Cost	3,964	1,019
Accumulated amortisation	(89)	(7)
Net book amount	<u>3,875</u>	<u>1,012</u>
For the year ended		
Opening net book value	3,875	1,012
Acquisition of subsidiaries	2,924	2,927
Additions	99,134	–
Amortisation	(774)	(82)
Exchange realignment	155	18
<b>Net book amount</b>	<u><u>105,314</u></u>	<u><u>3,875</u></u>
<b>At end of the year</b>		
Cost	106,181	3,964
Accumulated amortisation	(867)	(89)
<b>Net book amount</b>	<u><u>105,314</u></u>	<u><u>3,875</u></u>

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

As at 31 March 2007, the Group's interests in land use rights at the net book amount of HK\$13,764,000 (2006: HK\$Nil) were pledged to secured banking facilities granted to the Group (note 28).

# Notes to the Financial Statements

For the year ended 31 March 2007

## 15. INVESTMENT PROPERTY – GROUP

	HK\$'000
Carrying amount at 1 April 2006	–
Additions	98,110
Valuation surplus	40,890
<b>Carrying amount at 31 March 2007</b>	<b>139,000</b>

Investment property represented a parcel of land located in the PRC held for long-term capital appreciation. The land use right of which will expire from year 2046 to 2076 for commercial and residential use respectively.

Investment property was revalued on 31 March 2007 by CB Richard Ellis Limited, an independent firm of professional valuers at HK\$139,000,000 on an open market, existing use basis and on the assumption that the Group sells the property 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.

Further particulars of the Group's investment property are included on page 111.

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	559,515	135,237
Less: Provision for impairment	-	(77,800)
	<u>559,515</u>	<u>57,437</u>
Due from subsidiaries	189,641	480,632
Less: Provision for impairment	(24,212)	(434,600)
	<u>165,429</u>	<u>46,032</u>
Due within one year included under current assets	<u>165,429</u>	<u>46,032</u>

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2007 are as follows:

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Hong Kong Water Affairs Investments Limited	Hong Kong	1 share of HK\$1 each	–	100%	Investment holding
China Water Group Limited	BVI/Hong Kong	1 share of US\$1 each	100%	–	Investment holding
China Water Supply Group Limited	Hong Kong	2 shares of HK\$1 each	–	100%	Investment holding
China Environmental Water Holdings Limited (“CEWHL”)	Hong Kong	10 shares of HK\$1 each	–	100% (2006: 70%)	Investment holding
China Water Investments Limited	BVI/Hong Kong	1 share of US\$1 each	100%	–	Investment holding
高原聖果沙棘製品有限公司 (“高原聖果”) *(iii)	PRC	Registered capital of RMB30,500,000	–	50% (2006: 35%)	Cultivation, manufacture and sale of sea buckthorn’s seedlings and products
鄂爾多斯市高原聖果生態建設開發有限公司*(iii)	PRC	Registered capital of RMB20,000,000	–	50% (2006: 35%)	Cultivation, manufacture and sale of sea buckthorn’s seedlings and products
准格爾旗高原聖果沙棘有限公司*(iii)	PRC	Registered capital of RMB500,000	–	45% (2006: 32%)	Cultivation, manufacture and sale of sea buckthorn’s seedlings and products
達拉特旗高原聖果沙棘有限公司*(iii)	PRC	Registered capital of RMB500,000	–	45% (2006: 32%)	Cultivation and sale of sea buckthorn’s seedlings
陝西果聖水土保持建設有限公司*(iii)	PRC	Registered capital of RMB5,000,000	–	45% (2006: 32%)	Cultivation and sale of sea buckthorn’s seedlings

## | Notes to the Financial Statements

For the year ended 31 March 2007

**16. INTERESTS IN SUBSIDIARIES** (Continued)

Details of the principal subsidiaries at 31 March 2007 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	
荊州水務集團有限公司* (ii)	PRC	Registered capital of US\$29,500,000	51%	–	Water supply
荊州中水環保有限公司# (ii)	PRC	Registered capital of US\$8,200,000	100%	–	Sewage treatment
重慶市永川區橋立水務 有限公司 (formerly known as 永川橋立水務有限公司)* (i)	PRC	Registered capital of RMB42,200,000	100%	–	Water supply
重慶橋立市政設施工程 有限公司* (i)	PRC	Registered capital of RMB5,000,000	10%	90%	Water supply infrastructure
江西萬年銀龍水務有限 責任公司* (formerly known as 萬年縣大港橋供水有限公司 “大港橋”)	PRC	Registered capital of US\$30,000,000 (2006: RMB20,000,000)	100% (2006: 95%)	– (2006: 3%)	Water supply
江西省銀龍大酒店有限公司*	PRC	Registered capital of RMB1,000,000	65%	35% (2006: Nil)	Hotel operation
嵯州市水電開發有限公司^ (i)	PRC	Registered capital of RMB90,000,000	–	100%	Investment holding
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 (2006: RMB20,000,000)	–	60%	Water supply infrastructure



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2007 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	
新余白雲源水有限責任公司 <sup>^</sup>	PRC	Registered capital of RMB1,000,000	–	60%	Water supply
新余仙女湖新城開發有限公司* (ii)(iii)	PRC	Registered capital of RMB100,000,000	30%	18%	Development and infrastructure of sightseeing area
新余水務置業有限責任公司* (ii)	PRC	Registered capital of RMB20,000,000	–	54%	Property development and investment
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 <sup>#</sup>	PRC	Registered capital of RMB80,000,000	–	100%	Investment holding
河南銀龍(扶溝)供水有限公司 <sup>#</sup>	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure
河南銀龍(西華)供水有限公司*	PRC	Registered capital of RMB14,000,000	–	55%	Water supply and water supply infrastructure
周口銀龍水務有限公司* (ii)	PRC	Registered capital of RMB50,000,000	–	70%	Water supply and water supply infrastructure
河南鹿邑銀龍供水有限公司 <sup>#</sup>	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure

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

<sup>#</sup> registered as wholly-foreign owned enterprises under the PRC law.

<sup>^</sup> registered as a limited liability company under the PRC.

(i) acquired during the year ended 31 March 2007.

(ii) incorporated/established/injected during the year ended 31 March 2007.

(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.

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 March 2007 are as follows (Continued):

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

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

As at 31 March 2007 and 2006, 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.

## 17. INTERESTS IN ASSOCIATES – GROUP

	2007 HK\$'000	2006 HK\$'000
Share of net assets	<u>975</u>	<u>–</u>

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

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

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

	2007 HK\$'000
Assets	<u>15,226</u>
Liabilities	<u>13,163</u>
Revenue	<u>4,869</u>
Profit	<u>19</u>

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 18. OTHER FINANCIAL ASSETS

### a) Available-for-sale financial assets

	Group	
	2007 HK\$'000	2006 HK\$'000
Unlisted equity investments outside Hong Kong, at cost	41,506	26,148
Less: Provision for impairment	-	(26,148)
	<u>41,506</u>	<u>-</u>

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

Particulars of the major investment in unlisted equity securities as at 31 March 2007, disclosed pursuant to section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment	Principal activities	Particulars of registered capital	Percentage of interest held
萬年礦業有限公司 (“萬年礦業”)	PRC	Mining and trading of nonferrous metal	Registered capital of RMB8,915,000	45%
江西萬年鑫銀礦業有限公司 (“江西鑫銀”)	PRC	Mining and trading of nonferrous metal	Registered capital of RMB20,574,000	45%

- (i) The above table lists the major investments of the Group which, in the opinion of the directors, principally affected results for the year or formed a substantial portion of the net assets of the Group. To give details of other investments would, in the opinion of the directors, result in particulars of excessive length.
- (ii) The unlisted available-for-sale financial assets are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.
- (iii) The investments in 萬年礦業 and 江西鑫銀 are not equity accounted for under HKAS 28 “Investments in Associates”. This is because the directors are of the opinion that the Group has no participation in the financial and operating policy-making process.

# Notes to the Financial Statements

For the year ended 31 March 2007

## 18. OTHER FINANCIAL ASSETS (Continued)

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Listed equity investments, at market value:		
– Hong Kong*	5,835	–
– Elsewhere	223,140	–
	228,975	–

\* held directly by the Company at the balance sheet date

The above equity investments at 31 March 2007 were classified as held for trading.

Particulars of the investment in listed equity securities as at 31 March 2007, disclosed pursuant to section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment	Principal activities	Particulars of issued shares held	Percentage of interest held
Qian Jiang Water Resources Development Co., Limited <sup>#</sup> (“Qian Jiang”)	PRC	Water supply and property investment	285,330,000 shares of RMB0.1 each	11.34%

<sup>#</sup> Listed on the Shanghai Stock Exchange of the PRC (the “SSE”)

The Group has undertaken the following lockup periods in respect of the disposal of its interests in Qian Jiang through the SSE (the “Disposal”):

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 19. GOODWILL – GROUP

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

	2007 HK\$'000
<hr/>	
At 1 April 2006	
Gross carrying amount	–
Accumulated impairment	–
	<hr/>
Net carrying amount	–
	<hr/> <hr/>
For the year ended	
Net carrying amount at beginning of year	–
Acquisition of subsidiaries (note 36(b))	80,350
	<hr/>
<b>Net carrying amount at end of year</b>	<b>80,350</b>
	<hr/> <hr/>
<b>At end of the year</b>	
Gross carrying amount	80,350
Accumulated impairment	–
	<hr/>
<b>Net carrying amount</b>	<b>80,350</b>
	<hr/> <hr/>

The recoverable amounts for the cash-generating units as detailed in note 36(b) 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 8% and discount rate of 11% estimated by the management and determined by CB Richard Ellis Limited, an independent firm of professional valuers.

The Group's management's key assumptions for the Group have been determined 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.

## | Notes to the Financial Statements

For the year ended 31 March 2007

## 20. OTHER INTANGIBLE ASSETS – GROUP

	<b>Sewage treatment concession rights 2007 HK\$'000</b>
At 1 April 2006	
Cost	–
Accumulated amortisation	–
Net book amount	–
For the year ended	
Opening net book value	–
Additions	130,000
Amortisation	–
<b>Net book amount</b>	<b>130,000</b>
<b>At end of the year</b>	
Cost	130,000
Accumulated amortisation	–
<b>Net book amount</b>	<b>130,000</b>

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

As at 31 March 2007, the sewage treatment concession rights were pledged at a maximum period of 20 years as security for banking facilities granted to the Group (note 28).

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 21. DEPOSITS

	Notes	Group	
		2007 HK\$'000	2006 HK\$'000
Deposits for acquisition of equity instruments*	(i)	<b>106,368</b>	–
Other deposits	(ii)	<b>25,443</b>	5,798
		<b>131,811</b>	5,798

\* HK\$40,000,000 was held directly by the Company at the balance sheet date.

### Notes:

- (i) As at 31 March 2007, the deposits for acquisition of equity instruments amounted to RMB106,368,000 mainly comprised the followings:
- The amount of HK\$40,000,000 represented the deposits paid by the Company in relation to the acquisition of 39.94% equity interest in 廣東新會水務有限公司 (“廣東新會水務”) which is a company incorporated in the PRC and principally engaged in water supply and water supply infrastructure business in Xinhui District, Jiangmen City, the PRC. Upon completion of this acquisition, the Group would have effective interest of 46% in 廣東新會水務. Further details of which has been set out in the Company’s announcement dated 7 February 2007.
  - The amount of HK\$20,000,000 represented the deposit paid by the Group for the establishment of the equity joint venture, 江河農村電氣化發展有限公司 (“江河農村”). Further details of which has been set out in note 42(h).
  - The amount of HK\$20,000,000 represented the deposit paid by the Group in relation to the acquisition of 28.57% equity interest in 上海自來水投資建設有限公司 (“上海自來水”) which is a company incorporated in the PRC and principally engaged in the provision of management and engineering services for water supply and sewage treatment construction projects and related technical services principally in Shanghai City, the PRC.
- Pursuant to the investment agreement, the registered capital of 上海自來水 will be increased from RMB50 million to RMB70 million. Such increment of registered capital of RMB20 million (equivalent to approximately HK\$20 million) will be contributed by the Group. Further details of this investment have been set out in the Company’s announcement dated 13 February 2007.
- The amount of HK\$5,100,000 represented the deposit paid by the Group for the establishment of an equity joint venture in Shaanxi, which will be principally engaged in the manufacture of the sea buckthorn’s products.
  - The amount of HK\$21,268,000 represented the deposit paid by the Group in relation to the acquisition of entire equity interest in 新余市仙女湖游船有限責任公司 which is a company incorporated in the PRC and principally engaged in the provision of touring and catering services in the sightseeing area in Xinyu City, the PRC.
- (ii) The amount consisted of deposits of HK\$25,443,000 paid for acquisition of land use rights for the Group’s business expansion.

# Notes to the Financial Statements

For the year ended 31 March 2007

## 22. INVENTORIES - PROPERTIES UNDER DEVELOPMENT

	Group HK\$'000
At Cost	
At 1 April 2006	–
Additions	7,650
<b>At 31 March 2007</b>	<b>7,650</b>

The Group's properties under development are located in the PRC on leasehold land with lease terms expiring from year 2046 to 2076. In the opinion of the directors, the aggregate carrying amount of properties under development would be recovered after more than one year from the balance sheet date.

## 23. BIOLOGICAL ASSETS – GROUP

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

	2007 HK\$'000	2006 HK\$'000
Carrying amount at beginning of year	–	–
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	23,241	20,451
Decrease due to sales	(23,241)	(20,451)
Carrying amount at end of year	–	–

The Group's biological assets during the years ended 31 March 2007 and 2006 represented seedling of sea buckthorn which are primarily cultivated and held for sale.

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

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

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

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



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 24. INVENTORIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Raw materials and supplies	13,746	5,652
Work-in-progress	76	–
Finished goods	4,295	2,513
	<u>18,117</u>	<u>8,165</u>

## 25. TRADE AND BILLS RECEIVABLES

	Group	
	2007 HK\$'000	2006 HK\$'000
Trade and bills receivables	<u>23,476</u>	<u>7,749</u>

The Group has a policy of allowing trade customers with credit normally ranged from 30 to 90 days. The ageing analysis of the Group's trade and bills receivables at the balance sheet date is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Current to 90 days	12,379	4,453
91 – 180 days	5,306	526
Over 180 days	5,791	2,770
	<u>23,476</u>	<u>7,749</u>

# Notes to the Financial Statements

For the year ended 31 March 2007

## 26. BANK AND CASH BALANCES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash at bank and in hand	<b>256,589</b>	100,036	<b>5,330</b>	14,502
Short-term bank deposits	<b>263,692</b>	135,000	<b>263,692</b>	135,000
	<b>520,281</b>	235,036	<b>269,022</b>	149,502

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates, ranging from 3.7% to 4.1% per annum (2006: 3.8% to 3.9% per annum).

At as 31 March 2007, the Group had cash and bank balances denominated in RMB amounting to approximately HK\$229,095,000 (2006: approximately HK\$84,306,000), which were deposited with banks in the PRC and held in hand. The RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

## 27. TRADE PAYABLES

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

	Group	
	2007 HK\$'000	2006 HK\$'000
Current to 90 days	<b>19,196</b>	3,895
91 – 180 days	<b>1,746</b>	5,517
Over 180 days	<b>9,961</b>	2,548
	<b>30,903</b>	11,960

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 28. BORROWINGS

	Notes	Original Currency	Group		Company	
			2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>Current</b>						
Finance lease liabilities	(a)	HK\$	–	245	–	245
Bank loans – unsecured	(b)(i)	RMB	–	837	–	–
Bank loans – secured	(b)(i)	RMB	<b>67,660</b>	13,499	–	–
Other loans – unsecured	(b)(ii)	RMB	<b>5,888</b>	39,425	–	–
Other loans – secured	(b)(ii)	RMB	<b>10,000</b>	–	–	–
Government loans – unsecured	(b)(iii)	RMB	<b>45,687</b>	4,615	–	–
			<b>129,235</b>	58,621	–	245
<b>Non-current</b>						
Finance lease liabilities	(a)	HK\$	–	592	–	592
Bank loans – secured	(b)(i)	RMB	<b>236,420</b>	3,077	–	–
Other loans – unsecured	(b)(ii)	RMB	<b>2,160</b>	21,454	–	–
Other loans – secured	(b)(ii)	RMB	<b>13,450</b>	–	–	–
Government loans – unsecured	(b)(iii)	RMB	<b>47,390</b>	34,983	–	–
			<b>299,420</b>	60,106	–	592
			<b>428,655</b>	118,727	–	837

# Notes to the Financial Statements

For the year ended 31 March 2007

## 28. BORROWINGS (Continued)

Notes (a):

During the year ended 31 March 2006, the Company leased its motor vehicle under a finance lease and has remaining lease terms of four years. Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Finance lease liabilities were fully settled during the year ended 31 March 2007.

The analysis of the obligations under finance leases is as follows:

	Group and Company	
	2007 HK\$'000	2006 HK\$'000
Amounts payable:		
Within one year	-	279
In the second year	-	279
In the third to fifth years, inclusive	-	396
	-	954
Future finance charges on finance leases	-	(117)
Present value of finance lease liabilities	-	837
The present value of finance lease liabilities is as follows:		
Due within one year	-	245
Due in the second year	-	245
Due in the third to fifth years, inclusive	-	347
	-	837
Less: Portion due within one year included under current liabilities	-	(245)
Non-current portion included under non-current liabilities	-	592

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 28. BORROWINGS (Continued)

Notes (b):

	Group	
	2007 HK\$'000	2006 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	67,660	14,336
In the second year	41,800	769
In the third to fifth years, inclusive	154,620	2,308
Beyond five years	40,000	–
	304,080	17,413
Other loans repayable:		
Within one year or on demand	15,888	39,425
In the second year	3,960	–
In the third to fifth years, inclusive	10,650	21,454
Beyond five years	1,000	–
	31,498	60,879
Government loans repayable:		
Within one year or on demand	45,687	4,615
In the second year	5,978	11,381
In the third to fifth years, inclusive	16,500	7,343
Beyond five years	24,912	16,259
	93,077	39,598

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 28. BORROWINGS (Continued)

Notes (b):

- (i) The Group's bank loans at 31 March 2007 were secured by:
- (a) pledge of water revenue of certain subsidiaries;
  - (b) guarantees by You Tao and Liu Hua Dong (being senior management of certain subsidiaries), 江西省水利水電開發總公司, 新余市財政局 and 河南省四方藥業有限公司. The Group has not recognised the financial impact in respect of these guarantees as their fair value cannot be reliably measured and no transaction price was recorded;
  - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2007 was HK\$82,540,000;
  - (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2007 was HK\$13,764,000; and
  - (e) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2007 was HK\$130,000,000.

Except for the secured bank loans with aggregate carrying amount of HK\$40,280,000 (2006: HK\$3,846,000) which are interest-bearing at floating rates, all other bank loans of the Group are at fixed rates. The interest rates of the Group's bank loans ranged from 6.4% to 7.8% (2006: 5.5% to 7.6%) per annum.

- (ii) Except for the other loans with aggregate carrying amount of HK\$3,159,000 (2006: HK\$29,663,000) which are non-interest bearing, the interest rates of the Group's other loans ranged from 2.4% to 8.6% (2006: 2.6% to 10%) per annum.
- (iii) The government loans comprise loans of HK\$93,077,000 (2006: HK\$32,675,000), which bear interests ranging from 2.3% to 12% (2006: 2.3% to 2.6%) per annum, and an interest free loan of HK\$Nil (2006: HK\$6,923,000) (the "Government Interest Free Loan") granted by the local governments of the PRC. The local government of the PRC agreed to waive the repayment of the Government Interest Free Loan on the condition that the expansion and construction of water plant and pipeline of a subsidiary of the Company in the local county satisfy the requirements set by the local government.

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

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

During the year ended 31 March 2007, the Group made an impairment provision amounted to HK\$5,015,000 (2006: Nil) for the amount due from former subsidiaries.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 30. DEFERRED GOVERNMENT GRANTS

	<b>Group</b> HK\$'000
At 1 April 2006	–
Transfer from the Government Interest Free Loan (note 28)	6,923
Additions during the year	5,277
Amortisation during the year	(344)
	<hr/>
<b>At 31 March 2007</b>	<b>11,856</b>
	<hr/> <hr/>

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

## 31. CONVERTIBLE BONDS

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

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

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

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

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 31. CONVERTIBLE BONDS (Continued)

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 Convertible Bonds at their accreted principal amount together with accrued but unpaid interest.

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

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

The Convertible Bonds recognised in the balance sheet were calculated as follows:

	<b>Group and Company Liability component</b>	<b>Equity component</b>
	HK\$'000	HK\$'000
Net carrying amounts on initial recognition	275,608	10,413
Interest expenses	13,422	–
Interest paid	(2,025)	–
Arising from exercise of conversion rights	(222,105)	(8,087)
	<u>64,900</u>	<u>2,326</u>
<b>Net carrying amounts at 31 March 2007</b>	<b><u>64,900</u></b>	<b><u>2,326</u></b>

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

During the year ended 31 March 2007, Convertible Bonds with an aggregate amount of HK\$233,000,000 were converted into ordinary shares of the Company. Total number of ordinary shares converted was approximately 116,980,000 (note 33). Subsequent to the balance sheet date, the remaining Convertible Bonds at the principal amount of HK\$67,000,000 were converted into ordinary shares of the Company and total number of ordinary shares converted was approximately 33,838,000.

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



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 32. DEFERRED TAX LIABILITIES – GROUP

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

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

	Fair value adjustments arising from other financial assets HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2006	–	–	–
Charged to income statement (note 9)	29,451	13,494	42,945
<b>At 31 March 2007</b>	<b>29,451</b>	<b>13,494</b>	<b>42,945</b>

## 33. SHARE CAPITAL

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 31 March 2006 and 31 March 2007	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2005	481,302	4,813
Placing and subscription of new shares (note a)	302,900	3,029
Share options exercised (note b)	45,640	456
Ordinary shares of HK\$0.01 each at 31 March 2006	829,842	8,298
Share options exercised (note c)	75,800	758
Conversion rights of Convertible Bonds exercised (note d)	116,980	1,170
Placing and subscription of new shares (note e)	167,212	1,672
Ordinary shares of HK\$0.01 each at 31 March 2007	<b>1,189,834</b>	<b>11,898</b>

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 33. SHARE CAPITAL (Continued)

During the years ended 31 March 2007 and 2006, the movements in share capital were as follows:

- (a) During the year ended 31 March 2006, the following placement and subscription of new shares occurred:
  - (i) On 4 April 2005, Asset Full Resources Limited ("AFRL"), a company beneficially owned by Mr. Duan Chuan Liang ("Mr. Duan"), a director of the Company, entered into a placing agreement with a placing agent for the placement of 57,600,000 ordinary shares of the Company owned by AFRL at a price of HK\$0.50 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 57,600,000 new ordinary shares of the Company at a price of HK\$0.50 per share. The subscription of new shares raised total consideration of approximately HK\$28,800,000 (before expenses).
  - (ii) On 19 January 2006, AFRL entered into a placing agreement with a placing agent for the placement of 107,700,000 ordinary shares of the Company owned by AFRL at a price of HK\$0.42 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 107,700,000 new ordinary shares of the Company at a price of HK\$0.42 per share. The subscription of new shares raised total consideration of approximately HK\$45,234,000 (before expenses).
  - (iii) On 16 March 2006, AFRL entered into a placing agreement with a placing agent for the placement of 137,600,000 ordinary shares of the Company owned by AFRL at a price of HK\$0.96 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 137,600,000 new ordinary shares of the Company at a price of HK\$0.96 per share. The subscription of new shares raised total consideration of approximately HK\$132,096,000 (before expenses).
- (b) During the year ended 31 March 2006, the subscription rights attaching to 45,640,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.41 per share, resulting in the issue of 45,640,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$18,712,000 (before expenses).
- (c) During the year ended 31 March 2007, the subscription rights attaching to 17,000,000, 40,000,000, 17,700,000 and 1,100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.41, HK\$0.72, HK\$1.16 and HK\$1.45 per share respectively, resulting in the issue of 75,800,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$57,897,000 (before expenses) (note 34).
- (d) During the year ended 31 March 2007, 116,980,000 ordinary shares of HK\$0.01 each were issued pursuant to the exercise of the conversion rights attaching to the Company's Convertible Bonds at a conversion price of approximately HK\$2 per share (note 31).
- (e) On 15 and 18 December 2006, the Company and each of the subscribers, which consist of thirteen independent subscribers, entered into a subscription agreement, pursuant to which the subscribers agreed to subscribe and the Company agreed to allot a total of approximately 167,212,000 ordinary shares of the Company at a price of HK\$2.73 per share. On 29 December 2006, the subscription completed and raised total consideration of approximately HK\$456,490,000 (before expenses).

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 34. 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.

# Notes to the Financial Statements

For the year ended 31 March 2007

## 34. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options					Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2006	Granted during the year	Exercised during the year (note c)	Lapsed during the year	At 31 March 2007			
<b>Directors</b>								
Mr. Duan Chuan Liang	1,600,000	-	(1,600,000)	-	-	1 February 2005	Period 2	0.41
(note c)	3,700,000	-	(3,700,000)	-	-	3 January 2006	Period 1	0.41
	40,000,000	-	(40,000,000)	-	-	7 February 2006	Period 4	0.72
	45,300,000	-	(45,300,000)	-	-			
Mr. Zhou Wen Zhi	870,000	-	(870,000)	-	-	1 February 2005	Period 2	0.41
	1,000,000	-	(130,000)	-	870,000	3 January 2006	Period 1	0.41
	1,870,000	-	(1,000,000)	-	870,000			
Mr. Wu Jiesi	6,000,000	-	-	-	6,000,000	29 March 2006	Period 3	1.45
<b>Other employees</b>								
In aggregate	3,900,000	-	(400,000)	(3,500,000)	-	1 February 2005	Period 2	0.41
	12,000,000	-	(10,300,000)	-	1,700,000	3 January 2006	Period 1	0.41
	10,600,000	-	(7,900,000)	-	2,700,000	17 March 2006	Period 5	1.16
	2,400,000	-	(1,100,000)	-	1,300,000	29 March 2006	Period 3	1.45
	28,900,000	-	(19,700,000)	(3,500,000)	5,700,000			
<b>Suppliers/Advisors</b>								
In aggregate	9,800,000	-	(9,800,000)	-	-	17 March 2006	Period 5	1.16
	91,870,000	-	(75,800,000)	(3,500,000)	12,570,000			

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 34. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2006 are as follows :

Name or category of participant	Number of share options				At 31 March 2006	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2005	Granted during the year	Exercised during the year (note c)	Transfer (to)/ from other category during the year				
<b>Directors</b>								
Mr. Duan Chuan Liang	1,600,000	–	–	–	1,600,000	1 February 2005	Period 2	0.41
	–	3,700,000	–	–	3,700,000	3 January 2006	Period 1	0.41
	–	40,000,000	–	–	40,000,000	7 February 2006	Period 4	0.72
	1,600,000	43,700,000	–	–	45,300,000			
Mr. Chen Guo Ru	–	4,000,000	(4,000,000)	–	–	3 January 2006	Period 1	0.41
Mr. Tsui Chi Kin	3,500,000	–	–	(3,500,000)	–	1 February 2005	Period 2	0.41
Mr. Chiu Shun Pui, Andrew	2,200,000	–	(2,200,000)	–	–	1 February 2005	Period 2	0.41
	–	2,500,000	(2,500,000)	–	–	3 January 2006	Period 1	0.41
	2,200,000	2,500,000	(4,700,000)	–	–			
Mr. Zhao Hai Hu	2,600,000	–	(2,600,000)	–	–	1 February 2005	Period 2	0.41
	–	2,500,000	(2,500,000)	–	–	3 January 2006	Period 1	0.41
	2,600,000	2,500,000	(5,100,000)	–	–			
Mr. Zhou Wen Zhi	870,000	–	–	–	870,000	1 February 2005	Period 2	0.41
	–	1,000,000	–	–	1,000,000	3 January 2006	Period 1	0.41
	870,000	1,000,000	–	–	1,870,000			
Mr. Wu Jiesi	–	6,000,000	–	–	6,000,000	29 March 2006	Period 3	1.45

# Notes to the Financial Statements

For the year ended 31 March 2007

## 34. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2006 are as follows (Continued):

Name or category of participant	Number of share options				At 31 March 2006	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2005	Granted during the year	Exercised during the year (note c)	Transfer (to)/ from other category during the year				
<b>Other employees</b>								
In aggregate	4,540,000	-	(4,140,000)	3,500,000	3,900,000	1 February 2005	Period 2	0.41
	-	39,700,000	(27,700,000)	-	12,000,000	3 January 2006	Period 1	0.41
	-	10,600,000	-	-	10,600,000	17 March 2006	Period 5	1.16
	-	2,400,000	-	-	2,400,000	29 March 2006	Period 3	1.45
	<u>4,540,000</u>	<u>52,700,000</u>	<u>(31,840,000)</u>	<u>3,500,000</u>	<u>28,900,000</u>			
<b>Suppliers/Advisors</b>								
In aggregate	-	9,800,000	-	-	9,800,000	17 March 2006	Period 5	1.16
	<u>15,310,000</u>	<u>122,200,000</u>	<u>(45,640,000)</u>	<u>-</u>	<u>91,870,000</u>			

### Notes:

Period 1	3 February 2006 to 2 January 2008
Period 2	1 August 2005 to 31 January 2007
Period 3	29 March 2006 to 28 March 2011
Period 4	14 March 2006 to 6 February 2011
Period 5	17 March 2006 to 16 March 2011

- (a) The vesting date of the share options is the date of grant.
- (b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (c) The weighted average share price of the Company at the date of exercise was HK\$1.94 (2006: HK\$0.99).

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 34. SHARE OPTION SCHEME (Continued)

Notes (Continued):

(d)

	<b>Weighted average exercise prices of share options</b>
<u>For the year ended 31 March 2006</u>	
At 1 April 2005	0.41
Granted during the year	0.70
Exercised during the year	0.41
At 31 March 2006	0.41
<u>For the year ended 31 March 2007</u>	
At 1 April 2006	0.41
Granted during the year	0.81
Exercised during the year	0.76
Lapsed during the year	0.41
At 31 March 2007	1.18

- (e) The weighted average remaining contractual life of the share options outstanding at 31 March 2007 was approximately 4.1 years (2006: 3.3 years).

The fair value of equity-settled share options granted during the year ended 31 March 2006 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the weighted average inputs to the model used for the year ended 31 March 2006.

Dividend yield (%)	4.00%
Expected volatility (%)	50.00%
Risk-free interest rate (%)	4.26%
Expected life of option (year)	3.69 years
Weighted average share price (HK\$)	0.70

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 2007, the Company had 12,570,000 (2006: 91,870,000) share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 12,570,000 (2006: 91,870,000) additional ordinary shares of the Company and additional share capital of HK\$125,700 (2006: HK\$918,700) and share premium of HK\$14,645,000 (2006: HK\$73,184,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 93,670,000 share options outstanding under the Scheme, which represented approximately 8% of the Company's shares in issue at that date.

# | Notes to the Financial Statements

For the year ended 31 March 2007

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

The contributed surplus of the Group represents the difference between the reduction in the issued share capital of HK\$0.0995 for every issued share at a nominal value of HK\$0.10 each of the Company and amount to be set-off against the accumulated losses of the Company pursuant to a capital restructuring on 25 July 2003.

The property, plant and equipment revaluation reserve represents the revalued amount of certain moulds and equipment of the Group as at 31 March 2004 less the original costs and subsequent impairment losses of these moulds and equipment. The property, plant and equipment revaluation reserve is non-distributable.

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

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

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



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 35. RESERVES (Continued)

### (b) Company

	Share premium	Contributed surplus	Capital reserve	Share option reserve	Convertible bond equity reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	86,762	70,725	95,029	-	-	(220,307)	32,209
Equity-settled share option arrangements	-	-	-	30,532	-	-	30,532
Placing and subscription of new shares	203,101	-	-	-	-	-	203,101
Share options exercised	22,546	-	-	(4,290)	-	-	18,256
Share issue expenses	(5,608)	-	-	-	-	-	(5,608)
Loss for the year	-	-	-	-	-	(45,838)	(45,838)
At 31 March 2006 and at 1 April 2006	306,801	70,725	95,029	26,242	-	(266,145)	232,652
Issue of convertible bonds	-	-	-	-	10,413	-	10,413
Convertible bonds exercised	229,022	-	-	-	(8,087)	-	220,935
Placing and subscription of new shares	454,818	-	-	-	-	-	454,818
Share issue expenses	(5,717)	-	-	-	-	-	(5,717)
Share options exercised	77,615	-	-	(20,476)	-	-	57,139
Arising from disposal of subsidiaries	-	-	(95,029)	-	-	-	(95,029)
Profit for the year	-	-	-	-	-	64,765	64,765
<b>At 31 March 2007</b>	<b>1,062,539</b>	<b>70,725</b>	<b>-</b>	<b>5,766</b>	<b>2,326</b>	<b>(201,380)</b>	<b>939,976</b>

The capital reserve of the Company represented the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The 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.

# Notes to the Financial Statements

For the year ended 31 March 2007

## 36. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 36. BUSINESS COMBINATIONS (Continued)

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

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

	HK\$'000
Total purchase consideration	103,427
Direct costs relating to the acquisition	4,769
Fair value of net assets acquired	<u>(27,846)</u>
Goodwill (note 19)	<u>80,350</u>

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

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

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 36. BUSINESS COMBINATIONS (Continued)

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

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

- (c) On 9 November 2005, the Group acquired 50% equity interest in 高原聖果 by injection of cash of RMB14,000,000 (approximately HK\$13,469,000) into the enlarged registered capital of 高原聖果. 高原聖果 is principally engaged in cultivation and sale of sea buckthorn seedlings and manufacture and sale of sea buckthorn products.

The consolidated assets and liabilities of 高原聖果 arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	6,731	6,731
Prepaid land lease payments	2,384	2,384
Bank and cash balances	11,007	11,007
Inventories	3,397	3,397
Prepayments, deposits and other receivables	8,670	8,670
Trade payables	(10)	(10)
Accrued liabilities and other payables	(29,050)	(29,050)
Minority interests	(806)	(806)
	2,323	
Capital injection by the Group	13,469	
Capital injection by other minority equity holders	13,454	
Net assets	29,246	
Minority interests (50%)	(14,623)	
Net assets attributable to the Group acquired	14,623	
Excess over the cost of a business combination recognised in the income statement	(1,154)	
	13,469	
Satisfied by:		
Capital injection	13,469	

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 36. BUSINESS COMBINATIONS (Continued)

- (c) An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of 高原聖果 is as follows:

	2006 HK\$'000
Cash consideration	(13,469)
Bank and cash balances acquired	11,007
Cash inflow from capital injection made by the Group and other minority equity holders of subsidiaries	<u>26,923</u>
Net inflow	<u><u>24,461</u></u>

Since its acquisition, 高原聖果 contributed revenue of HK\$6,088,000 and net profit of HK\$4,484,000 to the Group respectively for the period from 9 November 2005 to 31 March 2006.

Had the combination taken place at 1 April 2005, the revenue and the net loss of the Group for the year would have been HK\$56,035,000 and HK\$41,175,000 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 2005, nor are they intended to be a projection of future results.

- (d) On 31 December 2005, the Group acquired 100% equity interest in 大港橋 from the original equity holders of 大港橋. 大港橋 is principally engaged in provision of water supply. The purchase consideration for the acquisition was in the form of cash at RMB3,913,000 (approximately HK\$3,763,000).

# Notes to the Financial Statements

For the year ended 31 March 2007

## 36. BUSINESS COMBINATIONS (Continued)

(d) The assets and liabilities of 大港橋 arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	26,697	26,697
Prepaid land lease payments	543	543
Bank and cash balances	1,992	1,992
Trade receivables	134	134
Inventories	234	234
Prepayments, deposits and other receivables	7,059	7,059
Trade payables	(981)	(981)
Accrued liabilities and other payables	(7,722)	(7,722)
Other borrowings	(20,346)	(20,346)
Bank loans	(3,847)	(3,847)
	<u>3,763</u>	
Net assets acquired	<u>3,763</u>	
Satisfied by:		
Cash	<u>3,763</u>	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of 大港橋 is as follows:

	2006 HK\$'000
Cash consideration	(3,763)
Bank and cash balances acquired	<u>1,992</u>
Net outflow	<u>(1,771)</u>

Since its acquisition, 大港橋 contributed revenue of HK\$708,000 and net loss of HK\$368,000 to the Group for the period from 31 December 2005 to 31 March 2006.

Had the combination taken place at 1 April 2005, the revenue and the net loss of the Group for the year ended 31 March 2006 would have been HK\$55,371,000 and HK\$39,228,000 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 2005, nor are they intended to be a projection of future results.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 37. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

### (a) Disposal of subsidiaries

	2007 HK\$'000	2006 HK\$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	–	26,307
Bank and cash balances	–	665
Trade receivables	–	15,905
Inventories	–	98
Prepayments, deposits and other receivables	2,209	195
Trade payables	(714)	(631)
Tax payable	–	(4,016)
Accrued liabilities and other payables	(366)	(30,615)
Minority interests	(432)	(4,425)
	<b>697</b>	3,483
Due to group companies disposed of	<b>410,356</b>	–
Release of capital reserve upon disposal	<b>(340)</b>	–
(Loss)/Gain on disposal of subsidiaries	<b>(357)</b>	3,017
Total consideration	<b>410,356</b>	6,500
Satisfied by:		
Waiver of amounts due by the disposed subsidiaries to the Group	<b>410,356</b>	–
Cash	–	6,500

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

	2007 HK\$'000	2006 HK\$'000
Cash consideration	–	6,500
Bank and cash balances disposed	–	(665)
	–	5,835
Less: unsettled amount of cash consideration as at 31 March 2006	–	(6,500)
Net outflow	–	(665)

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 37. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)

### (a) Disposal of subsidiaries (Continued)

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

The disposed subsidiaries during the year ended 31 March 2006 contributed revenue of HK\$9,125,000 and net profit of HK\$1,907,000 respectively for the period from 1 April 2005 to 23 March 2006 (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 2006, the Group entered into finance lease arrangements in respect of acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$1,085,000.
- (ii) During the year ended 31 March 2006, registered capitals of certain subsidiaries of the Company in the PRC were paid up by transfer of net assets at a total net carrying value of HK\$53,967,000, which mainly comprised the property, plant and equipment of HK\$145,055,000 and borrowings of HK\$80,225,000, from the minority equity holders of those subsidiaries.
- (iii) During the year ended 31 March 2007, registered capitals of certain subsidiaries of the Company in the PRC were paid up by transfer of net assets at a total net carrying value of HK\$108,351,000, which mainly comprised the property, plant and equipment of HK\$135,664,000, land use rights of HK\$19,701,000 and borrowings of HK\$25,900,000, from the minority equity holders of those subsidiaries. The excess of net assets over the registered capital of a subsidiary paid up by a minority equity holder of the subsidiary amounted to HK\$210,384,000, which mainly comprised the property, plant and equipment of HK\$233,685,000, land use rights of HK\$55,795,000 and borrowing of HK\$60,641,000, was settled through the current account with the minority equity holder.
- (iv) During the year ended 31 March 2007, the net assets of a subsidiary of the Company in the PRC at a total net carrying value of HK\$11,837,000, which mainly comprised the property, plant and equipment of HK\$23,227,000, and borrowings of HK\$11,152,000, were distributed to the minority equity holder of the subsidiary as a result of a capital reduction of the subsidiary.



# Notes to the Financial Statements |

For the year ended 31 March 2007

## 38. COMMITMENTS

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

### (i) Capital commitments

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Contracted, but not provided for		
– Construction in progress	<b>168,849</b>	4,576
– Plant and machinery	<b>12,019</b>	1,541
– Leasehold improvements	–	2,952
– Water pipelines	<b>4,486</b>	8,526
	<b>185,354</b>	17,595

As at 31 March 2007, the Group committed to make capital injections to its equity ventures operating in the PRC of approximately HK\$187,640,000 (2006: HK\$72,846,000).

### (ii) Operating lease arrangement

As leasee

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

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>4,344</b>	1,574
In the second to fifth years, inclusive	<b>11,462</b>	1,948
After five years	<b>23,600</b>	5,769
	<b>39,406</b>	9,291

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 38. COMMITMENTS (Continued)

### (ii) Operating lease arrangement (Continued)

As lessor

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

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

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>973</b>	–
In the second to fifth years, inclusive	<b>1,359</b>	–
	<b>2,332</b>	–

(iii) At the balance sheet date, the Group had other commitments amounted to HK\$389,408,000 (2006: HK\$Nil) in respect of its business development and infrastructure projects in the PRC.

(iv) At 31 March 2007, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$141,839,000 (2006: HK\$70,425,000).

## 39. PRELIMINARY AGREEMENTS

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

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 40. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### (a) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet or in the notes to the financial statements. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's bank deposits are mainly deposited with banks in Hong Kong and the PRC.

The Group has little concentration of credit risk arising from its ordinary course of business due to its relatively large customer base. The Group performs ongoing credit evaluation of its customers' financial positions. Provision for impairment is based upon a review of the expected collectibility of all receivables.

### (b) Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily related to RMB against Hong Kong Dollar. The Group does not hedge its foreign currency risks, as the management of the Group does not expect any significant movements in the exchange rate between RMB and Hong Kong Dollar.

### (c) Interest rate risk

The Group's interest rate risk mainly arises from the Group's borrowings and convertible bonds. The respective details of which are disclosed in notes 28 and 31.

### (d) Fair values

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

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 41. RELATED PARTY TRANSACTIONS

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

(a)	Notes	2007 HK\$'000	2006 HK\$'000
Loans from minority equity holders of subsidiaries	(i)	2,999	39,271
Sale to a minority equity holder of subsidiaries	(ii)	23,241	20,451
Receipt-in-advance from a minority equity holder of subsidiaries	(iii)	<u>13,569</u>	<u>11,306</u>

Notes:

- (i) Loans from minority equity holders of subsidiaries are unsecured, bearing interest ranging from non-interest bearing to 6.1% per annum and are included in other loans in note 28. The terms of the loans were based on mutually agreed terms.
  - (ii) The sales represented sale of biological assets to China National Administration Center for Sea Buckthorn Development, a minority equity holder of subsidiaries. The sales were based on mutually agreed terms.
  - (iii) An aggregate amount of receipt-in-advance of HK\$13,569,000 (2006: HK\$11,306,000) was received from China National Administration Center for Sea Buckthorn Development, a minority equity holder of subsidiaries. This amount was made for the sales of biological assets based on mutually agreed terms and was included under "accrued liabilities, deposits received and other payables".
- (b) During the year ended 31 March 2007, the amount due to a former minority equity holder of a subsidiary of HK\$5,773,000 was assigned to Mr. Duan. The Group also made repayment of HK\$2,415,000 (2006: HK\$2,457,000) to Mr. Duan. The current account with Mr. Duan is unsecured, interest-free and repayable on demand.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 41. RELATED PARTY TRANSACTIONS (Continued)

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

	2007 HK\$'000	2006 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	5,137	3,624
– Share-based payments	–	19,870
– Retirement scheme contribution	46	38
	<u>5,183</u>	<u>23,532</u>

(d) The Group acquired additional 30% of the issued share capital of CEWHL, a 70% owned subsidiary of the Group from the minority equity holder at a consideration of HK\$19,200,000. CEWHL and its subsidiaries are principally engaged in the cultivation, manufacture and sale of sea buckthorn's seedlings and products. Further details of which are disclosed in the Company's announcement dated 16 November 2006. The difference between the fair value 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.

## 42. POST BALANCE SHEET EVENTS

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

- (a) On 30 March 2007, AFRL entered into a placing agreement with Credit Suisse (Hong Kong) Limited for the placement of 14,095,940 ordinary shares of the Company owned by AFRL at a price of HK\$3.33 per share. Pursuant to a conditional subscription agreement on the same date. AFRL subscribed for 14,095,940 new ordinary shares of the Company at a price of HK\$3.33 per share. On 12 April 2007, the subscription completed and raised total consideration of approximately HK\$46,939,000 (before expenses).
- (b) On 13 April 2007, the Group and Ming Hing Holdings Limited ("Ming Hing"), whose shares are listed on the Stock Exchange, entered into a conditional subscription agreement, pursuant to which the Group agreed to subscribe a total of 64,000,000 new ordinary shares of Ming Hing at a price of HK\$0.80 per share, which represented approximately 16.67% of the enlarged issued share capital of Ming Hing. The total cash consideration was HK\$51,200,000. Further details of which are disclosed in the Company's announcement dated 16 April 2007.
- (c) On 24 April 2007, the Group and Prime Investments Holdings Limited ("Prime"), whose shares are listed on the Stock Exchange, entered into a subscription agreement, pursuant to which the Group agreed to subscribe a total of 68,181,818 ordinary shares of Prime at a price of HK\$0.22 per share, which represented approximately 17.25% of the enlarged issued share capital of Prime. The total cash consideration was approximately HK\$15,000,000.

# | Notes to the Financial Statements

For the year ended 31 March 2007

## 42. POST BALANCE SHEET EVENTS (Continued)

- (d) On 24 April 2007, the Group entered into a conditional agreement with 北京京勝工貿有限公司, for the acquisition of 75.5% of 江河水務投資有限公司 (“江河水務”) at the consideration of RMB47.75 million. Pursuant to the agreement, the Group will make further capital injection amounted to RMB60 million as the registered capital of 江河水務 will be increased from RMB50 million to RMB110 million. Upon completion of capital injection thereafter, the effective interest of the Group in 江河水務 will be above 88%.

The principal activity of 江河水務 include investment in and management of water supply, wastewater treatment, and drainage-related projects, and the provision of technology, technical know-how, technology transfer and technical advisory services, and the development of new technology. Further details of which are disclosed in the Company’s announcement dated 24 April 2007.

- (e) On 24 April 2007, the Company entered into a joint venture agreement (the “Gaoan JV agreement”) with Gaoan Government (the “JV partner”) for the establishment of an equity joint venture (the “Gaoan JV”) in the PRC which will be engaged in water supply, sewage treatment and water investment business in Gaoan City, Jiangxi Province, the PRC. Pursuant to the Gaoan JV agreement, the registered capital of the Gaoan JV will be RMB50 million. The Company will contribute RMB30 million for 60% equity interest and the JV partner will contribute RMB20 million for 40% equity interest in the Gaoan JV, respectively. Further details of which are disclosed in the Company’s announcement dated 26 April 2007.
- (f) On 27 April 2007, the Company entered into a joint venture agreement (the “Huizhou JV agreement”) with Huizhou City Investment Management Company (the “JV partner”) for the establishment of an equity joint venture (the “Huizhou JV”) in the PRC which will be principally engaged in water supply, sewage treatment, related installation and water related business in Huizhou City, Guangdong Province, the PRC. Pursuant to the Huizhou JV agreement, the registered capital of the Huizhou JV will be RMB100 million. The Company will contribute RMB70 million for 70% equity interest and the JV partner will contribute RMB30 million for 30% equity interest in the Huizhou JV, respectively. Further details of which are disclosed in the Company’s announcement dated 27 April 2007.
- (g) Pursuant to the result of the Company’s special general meeting on 8 May 2007, 50,000,000 share options are approved to be granted to Mr. Duan at the exercise price of HK\$3.60 per share.
- (h) On 10 May 2007, the Group, 中國水利投資集團公司 (“中國水利”), 重慶僑立水務(集團)有限公司 (“重慶僑立水務(集團)”) and 江河水業發展公司 (“江河水業”), entered into a conditional agreement to contribute new capital to 江河農村, which is a wholly-owned subsidiary of 中國水利. Pursuant to the agreement, the registered capital of 江河農村 will be increased to RMB506,392,000. The enlarged capital will be contributed as to RMB227,880,000 in cash by the Group, which represented 45% equity interest in 江河農村; (ii) RMB238,000,000, by way of injection of the net assets presently owned by 江河農村 by 中國水利; (iii) RMB25,320,000 in cash by 重慶僑立水務(集團) and; (iv) the remaining RMB15,192,000 in cash by 江河水業. 江河農村 is principally engaged in investments in hydro-electric power plant projects. Further details of which are disclosed in the Company’s announcement dated 10 May 2007.

# Notes to the Financial Statements |

For the year ended 31 March 2007

## 42. POST BALANCE SHEET EVENTS (Continued)

- (i) On 29 June 2007, the Group entered into a conditional agreement with Top Harbour Development Limited (the "Purchaser"), a wholly owned subsidiary of Wah Yuen Holdings Limited ("Wah Yuen"), whose shares are listed on the Stock Exchange, pursuant to which the Group agreed to sell and the Purchaser agreed to purchase the entire issued share capital of CEWHL at a consideration of HK\$200 million. CEWHL and its subsidiaries are principally engaged in the cultivation, manufacture and sale of sea buckthorn's seedlings and products ("Sea buckthorn related business" segment) and its major assets are property, plant and equipment, prepaid land lease payments and inventories. The proposed disposal is attributable to the high profitability arising.

The consideration is to be satisfied by the Purchaser as to (i) HK\$19,950,000 by the Purchaser procuring Wah Yuen to allot and issue 133,000,000 new shares of Wah Yuen to the Group credited as fully paid, at the issue price of HK\$0.15 per share and (ii) HK\$180,050,000 by the Purchaser procuring Wah Yuen to issue the convertible bonds to the Group. Further details of which are disclosed in the Company's announcement dated 11 July 2007.

- (j) On 16 July 2007, 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\$650 million. The net proceeds from the issue of convertible bonds will be used wholly for investment in water supply and/or water related projects in the PRC.

Further details of which are disclosed in the Company's announcement dated 18 July 2007.

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 July 2007.

# | Particulars of Property for Investment

For the year ended 31 March 2007

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	70 years/ 40 years



# Financial Summary |

## RESULTS

	Year ended 31 March				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Revenue	<u>140,344</u>	<u>52,901</u>	<u>48,467</u>	<u>33,187</u>	<u>123,464</u>
Profit/(Loss) before income tax	<u>151,678</u>	<u>(20,253)</u>	<u>(29,802)</u>	<u>(99,338)</u>	<u>(268,317)</u>
Income tax expense	<u>(48,734)</u>	<u>(4,757)</u>	<u>(1,185)</u>	<u>–</u>	<u>2,520</u>
Profit/(Loss) for the year	<u>102,944</u>	<u>(25,010)</u>	<u>(30,987)</u>	<u>(99,338)</u>	<u>(265,797)</u>
Attributable to:					
Equity holders of the Company	<u>63,379</u>	<u>(38,590)</u>	<u>(29,269)</u>	<u>(97,618)</u>	<u>(263,410)</u>
Minority interests	<u>39,565</u>	<u>13,580</u>	<u>(1,718)</u>	<u>(1,720)</u>	<u>(2,387)</u>
	<u>102,944</u>	<u>(25,010)</u>	<u>(30,987)</u>	<u>(99,338)</u>	<u>(265,797)</u>

## ASSETS AND LIABILITIES

	At 31 March				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Total assets	<u>2,259,290</u>	<u>530,464</u>	<u>111,645</u>	<u>98,223</u>	<u>146,174</u>
Total liabilities	<u>(974,993)</u>	<u>(191,275)</u>	<u>(69,119)</u>	<u>(68,148)</u>	<u>(91,796)</u>
Minority interests	<u>(240,098)</u>	<u>(97,859)</u>	<u>(7,476)</u>	<u>(9,791)</u>	<u>–</u>
Equity attributable to equity holders of the Company	<u>1,044,199</u>	<u>241,330</u>	<u>35,050</u>	<u>20,284</u>	<u>54,378</u>

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