

* For identification purposes only



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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

Mr. Lie Chi Wing, FCCA, CPA, CFA

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang

Mr. Lie Chi Wing

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East,

Wanchai, Hong Kong

LEGAL ADVISERS

As to Bermuda law

Conyers Dill & Pearman

AUDITORS

BDO Limited

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

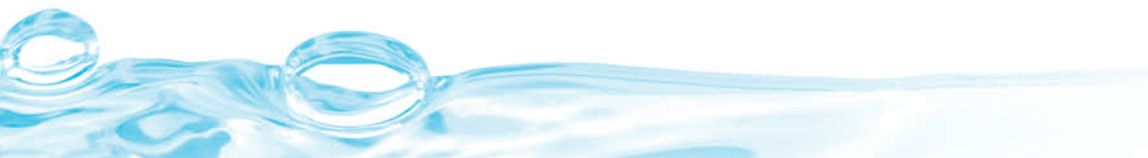
Agricultural Development Bank of China

WEBSITE

<http://www.chinawatergroup.com>

STOCK CODE

855



Chairman's Statement

I am pleased to present to the shareholders the annual results of China Water Affairs Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2011.

The Group continued its effort to strengthen the management of its subsidiaries and expanded the operating capacity and investment scale in the existing sector. For the year ended 31 March 2011, the Group recorded a turnover of HK\$1,478.2 million, representing an increase of 5.7% from HK\$1,398.2 million in last year. The Group recorded a gross profit of HK\$631.4 million representing an increase of 7.6% from HK\$586.6 million in last year. For the year under review, the Group recorded a profit for the year attributable to owners of the Company of HK\$421.9 million, representing an increase of 39.9% from HK\$301.6 million in last year. The basic earnings per share increased by 34.0% to HK31.24 cents in current year.

In consideration of the satisfactory results, the board of directors (the "Board") has proposed to pay the equity shareholders of the Company a final dividend of HK3 cents per share. Together with the interim dividend of HK2 cents per share, the total dividends for the year will be HK5 cents per share (2010: HK5 cents per share).

The Group upholds its business vision of "Water-oriented, Kindness to Society" while striving for its goal of becoming the best operator of raw water, tap water, sewage treatment and related services in the PRC and achieving satisfactory results. The Group sustained continuous growth in its water supply business, serving more than 5 million people in over 19 cities and counties in various provinces. China faces severe shortage of water resources which is further aggravated by accelerating urbanisation and economic growth. It is expected that the water sector has considerable room for growth. As marketisation of the water sector continues, we believe that water tariff still has ample room to grow.

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



Chairman's Statement

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$1,398.2 million for the year ended 31 March 2010 to HK\$1,478.2 million for the year ended 31 March 2011. The Group recorded a robust growth in its "Water" segment. For the year under review, the total revenue attributable to the "Water" segment amounted to HK\$1,132.6 million, which represented approximately 76.6% of the total revenue. For the corresponding year under review, the total revenue attributable to the "Water" segment amounted to HK\$986.2 million, which represented approximately 70.5% of the total revenue only. This represented a organic growth of "Water" segment revenue of 14.8%, which is mainly attributed to the successful growth of the Group through various mergers and acquisition, increase in operating efficiency and tariff of the water supply and sewage treatment plants.

(i) Water Supply Business Analysis

City water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Henan, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing.

For the year under review, the revenue from city water supply operation and construction amounted to HK\$1,084.0 million (2010: HK\$907.8 million), representing an increase of 19.4% as compared with the last corresponding year. The total water segment profit (including city water supply, water related installation works and meter installation) amounted to HK\$389.2 million (2010: HK\$270.7 million), representing a substantial increase of 43.8% as compared with the last corresponding year.

(ii) Sewage Treatment Business Analysis

Sewage treatment projects of the Group are mainly located in Hubei and Jiangxi provinces of China.

For the year under review, the revenue from sewage treatment operation and construction business amounted to HK\$48.6 million (2010: HK\$78.4 million), representing a decrease of 38.0% as compared with the last corresponding year, which was due to the completion of recognition of construction revenue of two of the Group's sewage treatment plants in Jiangxi province in last year. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$19.9 million (2010: HK\$18.8 million), representing an increase of 5.9% as compared with the last corresponding year.

(iii) Property Business Analysis

The Group held various property development and investment projects which are mainly located in Jiangxi province.

For the year under review, the revenue from property business segment amounted to HK\$187.5 million (2010: HK\$50.1 million), representing an increase of 274.3% as compared with the last corresponding year, which was due to the sales of a property project in Jiangxi province. The total property business segment profit amounted to HK\$64.6 million (2010: HK\$21.2 million), representing an increase of 204.7% as compared with the last corresponding year.

(iv) Other Infrastructure Construction Business Analysis

For the year under review, the Group did not record any revenue from the other infrastructure construction business segment (2010: HK\$228.7 million) as the progress of the Group's contracted infrastructure construction project in Jiangxi province was in the final stage in the last financial year. The total other infrastructure construction business segment loss amounted to HK\$2.3 million (2010: profit of HK\$88.8 million).



For the year under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to HK\$201.2 million, which represented the aggregate gain on disposal of 35% equity interest in 江河農村電氣化發展有限公司 and 17.085% equity interest in 中國水務投資有限公司. The Group considered that realisation of the above investments at a gain can provide resources to the Group in developing water supply related businesses in China.

For the year under review, the Group also recorded a number of gains related to China Water Property Group Limited ("China Water Property"), an associate of the Group with its ordinary shares listed on the mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2349), which included i) gain of HK\$82.3 million arising from conversion of HK\$60 million convertible bonds of China Water Property at the exercise price of HK\$0.045 held by the Group into the ordinary shares of China Water Property; ii) deemed gain of HK\$61.6 million from the release of available-for-sale financial assets revaluation reserve upon the recognition of China Water Property as an associate of the Group; and iii) share of results of China Water Property in an amount of HK\$59.4 million.

FUTURE PROSPECTS

China is a water-stressed country. The water pollution caused by the fast urbanisation in China is compounding the severity of the problem. The Group believes that water industry in China has large growth potential as solving the problems of water shortage and water pollution are critical to the success of sustainable economic growth and social development in China.

Water is the origin of life, key element of production and base of ecology. This first sentence in the No.1 Document in 2011 issued by the Chinese Central Government bought out the overwhelming importance of water conservancy development in China in the coming 10 years that have never been seen before. Blueprint of the water industry is outlined in the No.1 Document in 2011 and the entire water industry is expected to experience ample growth thereafter. With the persistent central government policies of integration of urban and rural water supply, reform of water price to escalation system for better water resources management which also created the need for complementary water installation work, demand for improvement of sewage treatment management standard, demand for substantial water conservancy infrastructure and among others, all these created an unprecedented opportunity for the Group. The Group will strive to move further and become a leading integrated water solution provider and create greater value for our shareholders and investors.

MAJOR ACQUISITIONS AND DISPOSALS

On 29 October 2010, the Group acquired 55% assets and the water supply business in 宜豐縣自來水公司 ("宜豐自來水") at a consideration of RMB20,287,000 (approximately HK\$23,980,000). The Group also entered into an agreement with 宜豐縣國有資產管理局 ("宜豐管理局"), the equity holder of 宜豐自來水, that the Group and 宜豐管理局 shall establish a new company, 宜豐銀龍, to run the relevant business. The Company shall contribute 55% registered capital of 宜豐銀龍 by way of the relevant assets acquired and 宜豐管理局 shall contribute the remaining 45% interest of 宜豐銀龍 by way of 45% assets and the water supply business in 宜豐自來水. The above transactions are completed on 1 December 2010. Details of the acquisition are disclosed in the Company's announcement dated 3 November 2010.

On 30 December 2010, the Group entered into a sale and purchase agreement with Town and Village Construction Planning Bureau of Jian City (吉安市城鄉規劃建設局), to acquire 70% equity interest in Jian Water Supply Company (吉安市供水公司) at consideration of RMB120,880,000. As at 31 March 2011, a deposit of approximately HK\$11,904,000 has been paid by the Group. The above transaction did not complete during the year. Details of the acquisition are disclosed in the Company's announcement dated 3 January 2011.



Chairman's Statement

On 1 February 2011, the Group entered into a corporation agreement with South-to-North Water Diversion East Line Jianghe Shuiyuan Company Limited (南水北調東綫江蘇水源有限責任公司) and Hohai University (河海大學), for the capital injection of RMB17,303,900 in Hohai University Design Institute (河海大學設計院), which is to be renamed to Hohai University Design Research Institute Company Limited (河海大學設計研究院有限公司) upon completion of the capital injection. The above transaction did not complete during the year. Details of the capital injection are disclosed in the Company's announcement dated 1 February 2011.

Details of the Group's acquisitions and disposals during the years ended 31 March 2010 and 2011 are set out in notes 43, 44 and 46(a) to the financial statements respectively.

CAPITAL RAISING

On 19 May 2011, the Company and ORIX Corporation ("ORIX") entered into a subscription agreement pursuant to which ORIX agreed to subscribe 235,598,277 new ordinary shares at the price of HK\$3.40 per share. The net proceeds from the subscription of new shares will be used for water related investments and for general working capital of the Group. On 30 May 2011, the subscription completed and raised total cash consideration of approximately HK\$801.0 million (before expenses).

ISSUE OF CONVERTIBLE BONDS

On 10 March 2010, the Company entered into a subscription agreement with DBS Bank Limited ("DBS") pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK\$600 million. The net proceeds from the issue of convertible bonds will be used for capital expenditure, working capital and general corporate purposes. Further details of which are disclosed in note 37(b) to the financial statements. The transaction was completed on 15 April 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2011, the Group has total cash and bank balances of approximately HK\$874.5 million (2010: HK\$605.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 48.2% (2010: 50.8%) as at 31 March 2011. The current ratio is 1.23 times (2010: 1.14 times) as at 31 March 2011. 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 2011, the Group has employed approximately 4,600 staff. Most of them stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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



PLEDGE OF ASSETS

- (i) The Group's bank loans and other loans at 31 March 2011 were secured by:
- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
 - (b) guarantees by You Tao, Lin Hua Dong, Li Huang Xiu and Qi Xiao Qiang (being senior management of certain subsidiaries), 江西省水利水電開發總公司 and 常州市武進供水總公司;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2011 was HK\$164,158,000 (2010: HK\$101,026,000);
 - (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2011 was HK\$64,368,000 (2010: HK\$16,998,000);
 - (e) charges over investment properties in which their aggregate carrying amounts as at 31 March 2011 was HK\$282,143,000 (2010: HK\$229,332,000);
 - (f) charges over properties under development in which their aggregate carrying amount as at 31 March 2011 was HK\$Nil (2010: HK\$63,466,000);
 - (g) changes over properties held for sale in which their aggregate carrying amount as at 31 March 2011 was HK\$21,039,000 (2010: HK\$Nil);
 - (h) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2011 was HK\$178,665,000 (2010: HK\$176,109,000);
 - (i) charges over the Group's bank deposits in amount of HK\$20,011,000 as at 31 March 2011 (2010: HK\$83,111,000); and
 - (j) (1) charges over shares of certain subsidiaries of the Group; (2) the Group's equity interests in China Water Property Group Limited; and (3) a bank account of the Group.

CONTINGENT LIABILITIES

As at 31 March 2011, the Group did not have any material contingent liabilities (2010: Nil).

ACKNOWLEDGEMENTS

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

Duan Chuan Liang
Chairman

Hong Kong, 28 June 2011

Directors' and Senior Management Biographical Details

DIRECTORS

Executive Directors

Mr. Duan Chuan Liang, aged 48, 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 72, graduated from 北京水利發電學校. He was appointed as the director-general of Department of Personnel, Labor and Education of the Ministry of Water Resources of the PRC and the chairman and party secretary of China Water Investment Corporation. Mr. Li is the director and general manager of Foundation Water Affairs Investment Co. Ltd. (江河水務投資有限公司). He joined the Group in May 2007.

Non-executive Directors

Mr. Wu Jiesi, aged 59, holds a doctorate degree in Economics from the Nankai University of the People's Republic of China. He was the former chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited. From 1984 to 1995, Mr. Wu has also worked for the Industrial and Commercial Bank of China as president of its Shenzhen branch. He is currently holding directorships in certain companies listed on the Main Board of The Stock Exchange of Hong Kong Limited, including being an independent non-executive director of Beijing Enterprises Holdings Limited (北京控股有限公司) and China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司), a non-executive director of Shenzhen Investment Limited (深圳控股有限公司). Mr. Wu is a non-executive director and vice chairman of China Aoyuan Property Group Limited (中國奧園地產集團股份有限公司). Mr. Wu is a non-executive director of Silver Base Group Holdings Limited (銀基集團控股有限公司). He joined the Group in February 2006.

Mr. Chen Guo Ru, aged 65, 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 56, 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 70, was graduated from Liaoning Agriculture University. He was the vice minister of Ministry of Water Resources of the PRC from 1991 until his retirement in June 2001. Mr. Zhou has over 11 years' experience in the development and construction of the PRC water resources. He joined the Group in October 2004.

Independent Non-executive Directors

Ms. Huang Shao Yun, aged 56, is the Financial Controller of Beijing Water Conservancy Material Supply Company. Ms. Huang graduated from Beijing Commercial College with a diploma in accountancy. Ms. Huang has over 35 years of accounting experience. She joined the Group in July 2003.



Directors' and Senior Management Biographical Details

Ms. Liu Dong, aged 43, 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 48, has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed in Hong Kong. Mr. Chau obtained a master degree in business administration from the University of San Francisco, US in 2000. He is also a Fellow of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is an independent non-executive director of Carpenter Tan Holdings Limited (stock code: 837) and Zhejiang Shibao Company Limited (stock code: 1057), which are listed on the main board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Eco-Tek Holdings Limited (stock code: 8169), which is listed on the Growth Enterprise Market of the Stock Exchange. He joined the Group in March 2007. He is also the chairman of the audit committee and remuneration committee of the Company.

Mr. Ong King Keung, aged 35, is the chief financial officer of a private group. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He holds a bachelor's degree in Accountancy from The Hong Kong Polytechnic University and Master Degree in Corporate Finance from the City University of Hong Kong. He has ample of experiences in auditing, financial management and initial public offering. He was senior management of several listed companies. He joined the Group in March 2007.

SENIOR MANAGEMENT

Mr. Lie Chi Wing, Aston, aged 33, is the company secretary of the Company. He holds a Bachelor Degree of Business Administration (First Class Honor) from The Hong Kong University of Science and Technology. He is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Financial Analyst. Mr. Lie has extensive experience in auditing and corporate advisory services with major international accounting firms. He joined the Group in April 2010.

Mr. Liu Yong, aged 42, is the executive general manager and deputy executive general manager of the Group. Mr Liu graduated from the Southeast University in 1991, majoring in detection technology and instrument of the Department of Automatic Control. He studied water supply and drainage in the Southeast Jiao Tong University from 1993 to 1994 and was awarded the qualification of senior water supply and drainage engineer in 2004. He obtained the PRC Certified Asset Appraiser Qualification Certificate in 1997. Mr Liu has over 13 years of senior management experience in water project design, water construction project management and water plant operation in water industry in China.

Mr. Li Xing Ping, aged 42, is the deputy general manager of the Group. He graduated from water supply and drainage specialty in the Department of Civil Engineering, Yellowstone Institute of Technology in 1991. He was awarded the bachelor degree in Engineering from Changjiang University and MBA from Huazhong University of Science and Technology in 2005. Mr Li has over 13 years of senior management experience in water project design, water engineering construction project management and water plant operation in water industry in China. He currently serves as deputy executive director of China Urban Water Association and director of Township Office.



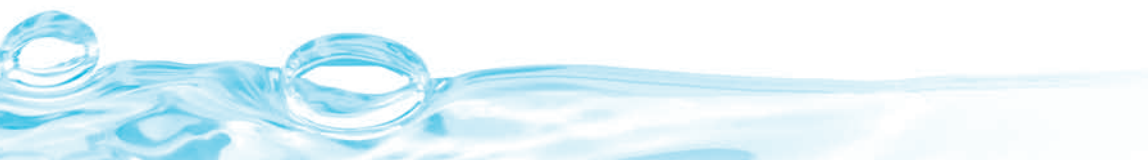
Corporate Governance Report

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

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

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

	Meetings attended/(held)		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Mr. Duan Chuan Liang (<i>Chairman</i>)	4/(4)	N/A	N/A
Mr. Li Ji Sheng	4/(4)	N/A	N/A
<i>Non-executive Directors</i>			
Mr. Chen Guo Ru	3/(4)	N/A	N/A
Mr. Zhao Hai Hu	3/(4)	N/A	N/A
Mr. Zhou Wen Zhi	1/(4)	N/A	N/A
Mr. Wu Jiesi	2/(4)	N/A	N/A
<i>Independent Non-executive Directors</i>			
Ms. Huang Shao Yun	3/(4)	2/(3)	2/(2)
Ms. Liu Dong	3/(4)	2/(3)	2/(2)
Mr. Chau Kam Wing	4/(4)	3/(3)	2/(2)
Mr. Ong King Keung	4/(4)	3/(3)	2/(2)



Corporate Governance Report

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Duan Chuan Liang serves as the Chairman of the Company. Following the resignation of Mr. Du Lin Dong as chief executive officer of the Company during the year under review, the previous job responsibilities of Mr. Du were discharged by the executive directors (being Mr. Duan Chuan Liang and Mr. Li Ji Sheng) collectively, which deviates from the requirement under Code Provision A.2.1 that the roles of the chairman and chief executive officer should be segregated.



Corporate Governance Report

The Board believes that the present structure will benefit to the Group and shareholders as a whole. With their profound knowledge and expertise in water related businesses, Mr. Duan and Mr. Li provide a strong and consistent leadership to formulate strategies, make and implement decisions promptly and efficiently. The balance of power and authority is ensured by the operations of Board, which comprises experienced and high caliber individuals. Major decisions of the Group are made in consultation with members of the Board and appropriate Board committees and senior management. A clear segregation of the duties and responsibilities at the board level is maintained to achieve a balance of power and authority. Audit Committee is composed exclusively of all Independent Non-executive Directors; and the Independent Non-executive Directors have free and direct access to the Company's external auditors and independent professional advices when consider necessary.

AUDIT COMMITTEE

The Audit Committee currently comprises 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 three meetings which included the review of the final results for the year ended 31 March 2010 and the interim accounts for the six months ended 30 September 2010 and the internal control system of the Group; and the proposed change of auditors of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee, currently comprises 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 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, two meetings were held by the Remuneration Committee and it reviewed the remuneration packages of the Directors and senior management.

NOMINATION OF DIRECTORS

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



DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives. During the year under review, the Board reviewed the overall effectiveness of the Group's system of internal control over financial, operational and compliance controls and risk management functions. The Board concluded that in general, the Group's internal control system is effective and adequate. The Board's review has considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. Appropriate measures and actions have been taken during the year ended 31 March 2011 on areas where rooms for improvement were identified.

AUDITORS' REMUNERATION

Due to a merger of the business of Grant Thornton ("GTHK") and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, BDO has been appointed as the auditors of the Company on 5 January 2011 following the resignation of GTHK, now known as JBPB & Co, on 6 December 2010. Total auditors' remuneration for the year ended 31 March 2011 amounted to HK\$5,850,000 (2010: HK\$5,300,000). No remuneration was paid for other non-audit services provided by BDO for the Company and its subsidiaries during the year ended 31 March 2011 and 2010. HK\$250,000 (2010: HK\$Nil) was paid for other non-audit services provided by GTHK for the Company and its subsidiaries during the year ended 31 March 2011.

DIRECTORS' SECURITIES TRANSACTIONS

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

COMMUNICATION WITH SHAREHOLDERS

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



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 2011.

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 19 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 2011 is set out in note 8 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 138 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 136. The Directors recommended a final dividend of HK3 cents (2010: HK3 cents) per ordinary share, which is subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 2 September 2011 and will be payable on or about Friday, 23 September 2011 to the shareholders whose names appear on the register of members on Friday, 16 September 2011. In addition, the final dividend is subject to the satisfaction of certain conditions under an amended and restated term facility agreement which have been satisfied as of the date of this report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 9 September 2011 to Friday, 16 September 2011 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 March 2011 and attending and voting at the annual general meeting, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 8 September 2011.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 16 and 18 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 137.

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

Details of movements in the Company's share capital, share options, derivative financial liabilities and convertible bonds during the year are set out in notes 40, 41, 36 and 37 to the financial statements, respectively.



PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 42 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 42 to the financial statements. The Company's reserves available for distribution to members at 31 March 2011 amounted to HK\$1,249,179,000 (2010: 1,286,318,000) comprised contributed surplus of HK\$1,245,639,000 (2010: HK\$1,315,149,000) and surplus of HK\$3,540,000 (2010: deficit of HK\$28,831,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

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

Executive Directors

Mr. Duan Chuan Liang (*Chairman*)

Mr. Li Ji Sheng

Non-executive Directors

Mr. Chen Guo Ru

Mr. Wu Jiesi

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi

Independent Non-executive Directors

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Chau Kam Wing

Mr. Ong King Keung

Directors' Report

In accordance with clause 87 of the Company's Bye-laws, Mr. Chen Guo Ru, Mr. Wu Jiesi and Mr. Zhao Hai Hu 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 re-election in accordance with the provisions of the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

As at 31 March 2011, 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.

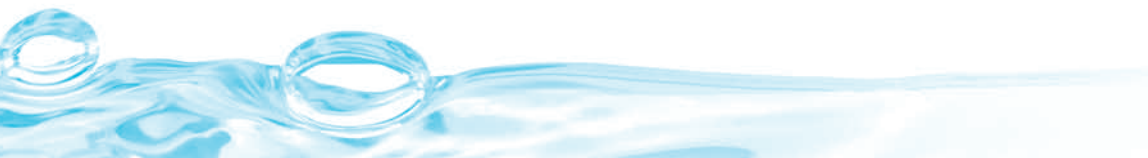
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 2011, 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	302,658,301	–	21.84%
Mr. Chen Guo Ru	Personal	3,500,000	–	0.25%
Mr. Zhao Hai Hu	Personal	1,900,000	–	0.14%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%

Note: These 302,658,301 shares consist of 129,062,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 173,596,000 shares held by Mr. Duan personally.



(b) Underlying shares

Name of Director	Capacity/ Nature of interest	Nature of shares		Approximate percentage of shareholding in the Company	
		Long position (Note)	Short position	Long position	Short position
Mr. Li Ji Sheng	Personal	1,000,000	–	0.07%	–
Mr. Chen Guo Ru	Personal	500,000	–	0.04%	–
Mr. Wu Jiesi	Personal	500,000	–	0.04%	–
Mr. Zhao Hai Hu	Personal	1,000,000	–	0.07%	–
Mr. Zhou Wen Zhi	Personal	500,000	–	0.04%	–

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

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 41 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 2011, 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 2011	Price per share to be paid on exercise of options HK\$	Approximate percentage of shareholding %
Mr. Li Ji Sheng	10 December 2009	1,000,000	2.85	0.07
Mr. Chen Guo Ru	10 December 2009	500,000	2.85	0.04
Mr. Wu Jiesi	10 December 2009	500,000	2.85	0.04
Mr. Zhao Hai Hu	10 December 2009	1,000,000	2.85	0.07
Mr. Zhou Wen Zhi	10 December 2009	500,000	2.85	0.04

Directors' Report

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

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

At 31 March 2011, 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			Approximate percentage of shareholding in the Company		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	302,658,301	-	-	21.84%	-	-
Asset Full Resources Limited (Note)	Beneficial	129,062,301	-	-	9.31%	-	-
Atlantis Investment Management (Hong Kong) Limited	Investment manager	177,484,000	-	-	12.81%	-	-
Zesigner Capital Group LLC	Investment manager	73,036,000	-	-	5.27%	-	-
JP Morgan Chase & Co.	Beneficial/Custodian	138,186,509	-	129,190,003	9.97%	-	9.32%
Norges Bank	Beneficial	124,652,000	-	-	8.99%	-	-
Deutsche Bank Aktiengesellschaft	Beneficial/Investment manager/ Person having a security interest in shares/Custodian	93,886,484	16,855,844	368,000	6.77%	1.22%	0.03%

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

Save as disclosed above, as at 31 March 2011, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTION

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 50 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that the Company has maintained a sufficient public float throughout the year ended 31 March 2011.

POST REPORTING DATE EVENTS

Details of the significant post reporting date events of the Group are set out in note 51 to the financial statements.

AUDITORS

The financial statements of the Company in respect of the previous two financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned effective from 6 December 2010 and BDO was appointed as auditors of the Company effective from 5 January 2011. The financial statements of the Company for the year ended 31 March 2011 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the board

Duan Chuan Liang

Chairman

Hong Kong, 28 June 2011



Independent Auditor's Report



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TO THE SHAREHOLDERS 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") and its subsidiaries (together the "Group") set out on pages 22 to 136, which comprise the consolidated and company statements of financial position as at 31 March 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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 consolidated financial statements are free from material misstatement.

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

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



Independent Auditor's 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 2011 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.

BDO Limited

Certified Public Accountants

Lo Ngai Hang

Practising Certificate Number P04743

Hong Kong, 28 June 2011



Consolidated Income Statement

For the year ended 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	7	1,478,163	1,398,168
Cost of sales		(846,792)	(811,606)
Gross profit		631,371	586,562
Other income	7	129,407	87,116
Selling and distribution costs		(54,472)	(48,526)
Administrative expenses		(289,864)	(248,361)
Equity-settled share options expenses		–	(6,030)
Other operating expenses		(3,569)	(8,535)
Excess over the cost of business combination recognised in profit or loss	20, 43	–	68,218
Fair value gain on investment properties		21,033	18,600
Fair value gain on financial assets at fair value through profit or loss		5,197	24,378
Change in fair value of derivative financial instruments		(6,476)	115,652
Gain on disposal/reversal of impairment on available-for-sale financial assets		83,525	43,871
Gain on disposal of assets classified as held for sale		201,189	–
Deemed gain for the change from available-for-sale financial assets to interests in associates		61,634	–
Loss on redemption of convertible bonds		(16,460)	–
Profit from operation	9	762,515	632,945
Finance costs	10	(102,742)	(112,811)
Share of results of associates		65,445	–
Profit before income tax		725,218	520,134
Income tax expense	11	(124,726)	(75,431)
Profit for the year		600,492	444,703
Profit for the year attributable to:			
Owners of the Company	12	421,905	301,571
Non-controlling interests		178,587	143,132
		600,492	444,703
Earnings per share for profit attributable to owners of the Company during the year	14	HK cents	HK cents
Basic		31.24	23.31
Diluted		28.83	22.73

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Profit for the year		600,492	444,703
Other comprehensive income			
Reclassification adjustments relating to available-for-sale financial assets			
– Conversion of convertible bonds to shares	21(a)	(6,654)	–
– Change from available-for-sale financial assets to interests in associates	21(b)	(61,634)	–
Change in fair value of available-for-sale financial assets		(146,633)	221,433
Share of other comprehensive income of associates		6,029	–
Currency translation		176,467	13,577
Other comprehensive income for the year, net of tax		(32,425)	235,010
Total comprehensive income for the year		568,067	679,713
Total comprehensive income attributable to:			
Owners of the Company		332,965	534,487
Non-controlling interests		235,102	145,226
		568,067	679,713

Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	3,403,298	3,063,979
Prepaid land lease payments	17	442,678	429,164
Investment properties	18	840,227	718,409
Interests in associates	20	536,117	88,149
Available-for-sale financial assets	21	123,190	455,512
Goodwill	22	172,667	175,343
Other intangible assets	23	178,665	176,109
Deposits and prepayments	24	287,875	191,220
		5,984,717	5,297,885
Current assets			
Properties under development	25	30,300	166,216
Properties held for sale	26	63,913	1,511
Inventories	27	95,592	55,987
Trade receivables	28	359,147	539,000
Amounts due from grantors for contract work	29	103,910	94,588
Financial assets at fair value through profit or loss	30	4,062	53,841
Due from non-controlling equity holders of subsidiaries	35	198,102	131,566
Prepayments, deposits and other receivables	24	515,637	233,311
Derivative financial assets	21(a)	47,390	142,897
Pledged deposits	31	25,873	83,111
Cash and cash equivalents	31	848,635	522,678
		2,292,561	2,024,706
Assets classified as held for sale	45	84,158	453,519
		2,376,719	2,478,225
Current liabilities			
Trade payables	32	346,707	326,848
Accrued liabilities, deposits received and other payables	33	745,704	738,173
Borrowings	34	623,397	636,815
Due to non-controlling equity holders of subsidiaries	35	68,897	118,175
Provision for tax		124,227	85,520
Derivative financial liabilities	36	25,982	3,006
Convertible bonds	37	–	257,252
		1,934,914	2,165,789
Net current assets		441,805	312,436
Total assets less current liabilities		6,426,522	5,610,321



Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Non-current liabilities			
Borrowings	34	1,211,134	1,535,960
Due to non-controlling equity holders of subsidiaries	35	37,371	–
Convertible bonds	37	569,141	–
Deferred government grants	38	54,603	51,446
Deferred tax liabilities	39	220,944	196,137
		2,093,193	1,783,543
Net assets		4,333,329	3,826,778
EQUITY			
Equity attributable to owners of the Company			
Share capital	40	13,859	13,277
Proposed final dividend	13	41,576	39,980
Reserves		2,809,197	2,496,397
		2,864,632	2,549,654
Non-controlling interests		1,468,697	1,277,124
Total equity		4,333,329	3,826,778

Duan Chuan Liang
Director

Li Ji Sheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

Equity attributable to owners of the Company

	Share capital	Proposed final dividend	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Available-for-sale financial assets revaluation reserve	Statutory reserves	Retained earnings	Total	Non-controlling 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 2009	12,069	36,206	1,135,595	341	34,519	137,862	81,354	383	-	38,280	399,551	1,876,160	811,677	2,687,837
Placing and subscription of new shares (note 40)	1,200	-	226,800	-	-	-	-	-	-	-	-	228,000	-	228,000
Share issuance expenses	-	-	(11,632)	-	-	-	-	-	-	-	-	(11,632)	-	(11,632)
Share premium reduction	-	-	(1,350,762)	-	1,350,762	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	6,030	-	-	-	-	6,030	-	6,030
Share options exercised (note 40)	8	-	1,404	-	-	-	(455)	-	-	-	-	957	-	957
Share options lapsed	-	-	-	-	-	-	(63,920)	-	-	-	63,920	-	-	-
Arising from acquisition of subsidiaries and businesses	-	-	-	-	-	-	-	-	-	-	-	-	232,470	232,470
Arising from disposal of subsidiaries (note 46(a))	-	-	-	-	-	(29)	-	-	-	-	-	(29)	(367)	(396)
Arising from partial disposal of a subsidiary (note 44(f))	-	-	-	-	-	-	-	(4,200)	-	-	-	(4,200)	6,465	2,265
Arising from deemed disposal of subsidiaries (note 44(d) and (e))	-	-	-	-	-	(115)	-	(13,646)	-	-	-	(13,761)	13,761	-
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	116,455	116,455
Final dividend 2009 (note 13)	-	(36,206)	-	-	(3,600)	-	-	-	-	-	-	(39,806)	-	(39,806)
Interim dividend 2010 (note 13)	-	-	-	-	(26,552)	-	-	-	-	-	-	(26,552)	-	(26,552)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(48,563)	(48,563)
Transactions with owners	1,208	(36,206)	(1,134,190)	-	1,320,610	(144)	(58,345)	(17,846)	-	-	63,920	139,007	320,221	459,228
Proposed final dividend 2010 (note 13)	-	39,980	-	-	(39,980)	-	-	-	-	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	12,509	(12,509)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	301,571	301,571	143,132	444,703
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	221,433	-	-	221,433	-	221,433
- Currency translation	-	-	-	-	-	11,483	-	-	-	-	-	11,483	2,094	13,577
Total comprehensive income for the year	-	-	-	-	-	11,483	-	-	221,433	-	301,571	534,487	145,226	679,713
Balance at 31 March 2010 and 1 April 2010	13,277	39,980	1,405	341	1,315,149	149,201	23,009	(17,463)	221,433	50,789	752,533	2,549,654	1,277,124	3,826,778
Share options exercised (note 40)	582	-	78,682	-	-	-	(16,838)	-	-	-	-	62,426	-	62,426
Share options lapsed	-	-	-	-	-	-	(141)	-	-	-	141	-	-	-
Arising from acquisition of subsidiaries and businesses (note 43(a) and (b))	-	-	-	-	-	-	-	-	-	-	-	-	20,229	20,229
Arising from deemed acquisition of subsidiaries	-	-	-	-	-	-	-	15,750	-	-	-	15,750	(15,750)	-
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	(20,009)	-	-	-	(20,009)	(79,214)	(99,223)
Arising from disposal of subsidiaries (note 46(a))	-	-	-	-	-	(458)	-	-	-	(583)	-	(1,041)	(5,722)	(6,763)
Arising from deemed disposal of subsidiaries (note 44 (a) and (b))	-	-	-	-	-	-	-	(7,199)	-	-	-	(7,199)	7,199	-
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	67,353	67,353
Final dividend 2010 (note 13)	-	(39,980)	-	-	(645)	-	-	-	-	-	-	(40,625)	-	(40,625)
Interim dividend 2011 (note 13)	-	-	-	-	(27,289)	-	-	-	-	-	-	(27,289)	-	(27,289)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(37,624)	(37,624)
Transactions with owners	582	(39,980)	78,682	-	(27,934)	(458)	(16,979)	(11,458)	-	(583)	141	(17,987)	(43,529)	(61,516)
Proposed final dividend 2011 (note 13)	-	41,576	-	-	(41,576)	-	-	-	-	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	43,664	(43,664)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	421,905	421,905	178,587	600,492
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Conversion of convertible bonds to shares	-	-	-	-	-	-	-	-	(6,654)	-	-	(6,654)	-	(6,654)
- Change from available-for-sale financial assets to interests in associates	-	-	-	-	-	-	-	-	(61,634)	-	-	(61,634)	-	(61,634)
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	(146,633)	-	-	(146,633)	-	(146,633)
- Currency translation	-	-	-	-	-	119,952	-	-	-	-	-	119,952	56,515	176,467
- Share of other comprehensive income of associates	-	-	-	-	-	1,622	4,407	-	-	-	-	6,029	-	6,029
Total comprehensive income for the year	-	-	-	-	-	121,574	4,407	-	(214,921)	-	421,905	332,965	235,102	568,067
Balance at 31 March 2011	13,859	41,576	80,087	341	1,245,639	270,317	10,437	(28,921)	6,512	93,870	1,130,915	2,864,632	1,468,697	4,333,329

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Cash flows from operating activities			
Profit before income tax		725,218	520,134
Adjustments for:			
Finance costs	10	102,742	112,811
Share of results of associates		(65,445)	–
Interest income	7	(9,683)	(11,265)
Dividend income from financial assets	7	(12,801)	(4,821)
Amortisation of deferred government grants	7	(2,449)	(2,153)
Depreciation	9	169,069	136,758
Amortisation of prepaid land lease payments	9	14,620	7,136
Amortisation of other intangible assets	9	7,968	7,574
Amortisation of capitalised expenses		1,405	2,283
Gain on disposal of property, plant and equipment	7	(5,760)	(1,446)
Property, plant and equipment written off	9	111	95
Gain on disposal of land use rights	9	(236)	–
Valuation surplus on investment properties	18	(21,033)	(18,600)
Equity-settled share options expenses		–	6,030
Excess over the cost of business combination recognised in profit or loss	43	–	(68,218)
Gain on disposal of subsidiaries	46(a)	(391)	(17)
Gain on disposal of assets classified as held for sale		(201,189)	–
Fair value gain on financial assets at fair value through profit or loss		(5,197)	(24,378)
Change in fair value of derivative financial instruments		6,476	(115,652)
Deemed gain for the change from available-for-sale financial assets to interests in associates		(61,634)	–
Loss on partial disposal of convertible bonds	9	–	2,687
Loss on redemption of convertible bonds		16,460	–
Gain on disposal/reversal of impairment on available-for-sale financial assets		(83,525)	(43,871)
Trade receivables written off	9	1,599	1,440
Inventories written off	9	–	142
Operating profit before working capital changes		576,325	506,669
Decrease in financial assets at fair value through profit or loss		54,976	103,679
Increase in properties under development		(52,620)	(93,840)
Decrease in properties held for sale, net		126,134	41,332
Increase in inventories		(46,193)	(8,868)
Increase in trade receivables		(89,686)	(194,767)
Increase in amounts due from grantors for contract work		(9,322)	(41,791)
Increase in amounts due from non-controlling equity holders of subsidiaries		(66,536)	(86,869)
(Increase)/decrease in prepayments, deposits and other receivables		(167,658)	78,033
Increase in trade payables		27,084	42,925
Decrease in amounts due to customers for contract work		–	(14,665)
Increase/(decrease) in accrued liabilities, deposits received and other payables		10,225	(39,003)
Cash generated from operations		362,729	292,835
Interest paid for bank and other borrowings		(52,673)	(91,089)
Income taxes paid		(70,176)	(85,937)
Net cash generated from operating activities		239,880	115,809

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Cash flows from investing activities			
Interest received		9,683	11,265
Dividend received		12,801	4,821
Purchase of property, plant and equipment		(373,815)	(242,546)
Proceeds from disposal of property, plant and equipment		62,744	5,246
Land lease payments prepaid		(24,052)	(28,971)
Proceeds from disposal of land use rights		44,482	3,655
Purchase of investment properties		(66,074)	(27,536)
Purchase of water supply concession rights		(2,406)	(10,558)
Deposits paid		(182,742)	(95,602)
Acquisition of subsidiaries and businesses (net of cash and cash equivalents acquired)	43	(19,909)	(23,106)
Disposal of subsidiaries (net of cash and cash equivalents disposed)	46(a)	(833)	–
Investments in associates		(7,456)	(69,452)
Dividends received from associates		4,692	–
Purchases of available-for-sale financial assets		(70,943)	(87,788)
Proceeds from disposal of convertible bonds		–	37,500
Proceeds from disposal of available-for-sale financial assets		23,588	–
Loan to a third party		(100,000)	–
Proceeds from disposal of assets classified as held for sales		581,794	–
Decrease/(increase) in pledged deposits		57,238	(51,524)
Increase in cash deposit with an original maturity of more than 3 months		(61,190)	–
Deferred government grants received		3,140	25,232
<i>Net cash used in investing activities</i>		(109,258)	(549,364)
Cash flows from financing activities			
Acquisition of non-controlling interests		(66,269)	–
Placing and subscription of new shares		–	228,000
Share issuance expenses		–	(11,632)
Proceeds from issuance of convertible bonds		600,000	–
Convertible bonds issuance expenses		(13,030)	–
Redemption of convertible bonds	37	(279,024)	–
Interest on convertible bonds		(7,500)	–
Share options exercised		62,426	957
Repayment to non-controlling equity holders of subsidiaries of the Company		(49,531)	(121,225)
Drawdown of bank loans		292,857	669,370
Repayment of bank loans		(390,149)	(372,030)
Drawdown of other borrowings		49,483	111,102
Repayment of other borrowings		(114,495)	(58,345)
Dividends paid		(67,914)	(66,358)
Injection by non-controlling equity holders of subsidiaries of the Company		67,353	31,390
<i>Net cash generated from financing activities</i>		84,207	411,229
Net increase/(decrease) in cash and cash equivalents		214,829	(22,326)
Cash and cash equivalents at beginning of year		526,156	546,067
Effect of foreign exchange rates, net		46,460	2,415
Cash and cash equivalents at end of year		787,445	526,156
Analysis of cash and cash equivalents			
Bank and cash balances	31	787,445	522,678
Assets classified as held for sale	45	–	3,478
		787,445	526,156

Statement of Financial Position

As at 31 March 2011

	Notes	2011 HK\$'000	2010 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	3,124	2,469
Interests in subsidiaries	19	990,086	893,505
Available-for-sale financial assets	21	124,317	135,124
		<u>1,117,527</u>	<u>1,031,098</u>
Current assets			
Financial assets at fair value through profit or loss	30	380	1,053
Due from subsidiaries	19	874,804	595,161
Due from non-controlling equity holders of subsidiaries	35	–	2,140
Prepayments, deposits and other receivables	24	8,347	13,483
Pledged deposits	31	–	63,600
Cash and cash equivalents	31	353,089	142,674
		<u>1,236,620</u>	<u>818,111</u>
Assets classified as held for sale	45	–	182,699
		<u>1,236,620</u>	<u>1,000,810</u>
Current liabilities			
Due to subsidiaries	19	303,915	263,034
Accrued liabilities and other payables	33	23,971	62,195
Provision for tax		292	–
Derivative financial liabilities	36	25,982	3,006
Convertible bonds	37	–	257,252
		<u>354,160</u>	<u>585,487</u>
Net current assets		<u>882,460</u>	<u>415,323</u>
Total assets less current liabilities		<u>1,999,987</u>	<u>1,446,421</u>
Non-current liabilities			
Convertible bonds	37	569,141	–
Net assets		<u>1,430,846</u>	<u>1,446,421</u>
EQUITY			
Share capital	40	13,859	13,277
Proposed final dividend	13	41,576	39,980
Reserves	42(b)	1,375,411	1,393,164
Total equity		<u>1,430,846</u>	<u>1,446,421</u>

Duan Chuan Liang
Director

Li Ji Sheng
Director

Notes to the Financial Statements

For the year ended 31 March 2011

1. CORPORATE INFORMATION

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

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

The Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Suite 6408, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19 to the financial statements. The Company and its subsidiaries are together defined to as the "Group" hereafter.

The financial statements for the year ended 31 March 2011 were approved for issue by the board of directors (the "Directors") on 28 June 2011.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Adoption of revised/amended HKFRSs

In the current year, the Group has applied for the first time the following revision and amendment to standards and interpretations ("revised/amended HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HKFRSs (Amendments)	Improvements to HKFRSs 2010 – HKAS 1 Presentation of Financial Statements

Except for as explained below, the adoption of these revised/amended HKFRSs has no significant impact on the consolidated financial statements of the Group.



Notes to the Financial Statements

For the year ended 31 March 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

2.1 Adoption of revised/amended HKFRSs (Continued)

HKFRS 3 (Revised) – Business Combinations and HKAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in note 4.1 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has accounted for the business combinations according to the revised standard details of which are set out in note 43 to the financial statements and the adoption of revised HKFRS 3 has had no material impact to the consolidated financial statements.

HKAS 27 has been revised in relation to a change in the ownership interest in a subsidiary. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss. The adoption of the revised HKAS27 has had no material impact on the current year.

HKFRSs (Amendments) – Improvements to HKFRSs 2009

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Prior to this amendment, HKAS 17 generally required a lease of land to be classified as an operating lease and to present consideration paid on acquisition of leasehold land as operating lease prepayments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group has reassessed the classification of the land elements of its unexpired leases at 1 April 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

HKFRSs (Amendments) – Improvements to HKFRSs 2010

As part of Improvements to HKFRSs issued in 2010, the amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date and amendments have been made to the consolidated statement of changes in equity. The amendments have been applied retrospectively.

Notes to the Financial Statements

For the year ended 31 March 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group (exception for the amendments to HKAS 1 Presentation of Financial Statements which are part of the Improvements to HKFRSs 2010).

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ^{1&2}
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instrument ¹
HKAS 24 (Revised)	Related Party Disclosures ²
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets ³
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets ⁴
HKFRS 9	Financial Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2010

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 July 2011

⁴ Effective for annual periods beginning on or after 1 January 2012

⁵ Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Notes to the Financial Statements

For the year ended 31 March 2011

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective (Continued)

The HKICPA amended HKAS 12 Income Taxes to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. Currently HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The effective date for the amendment is annual periods beginning on or after 1 January 2012. The Group does not early adopt this amendment as permitted.

The Group is in the process of making an assessment of the potential impact of new/revised HKFRSs and the Directors so far concluded that the application of new/revised HKFRSs will have no material impact on the Group’s financial statements.

3 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The result of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Business combination from 1 April 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.



Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combination and basis of consolidation (Continued)

Business combination from 1 April 2010 (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior 1 April 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

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

4.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. In consolidated financial statements, associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

4.4 Assets classified as held for sale

Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets, other than financial assets as set out in note 4.11, classified as held for sale are measured at the lower of the assets' last revalued amount and fair value less costs to sell.

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

4.5 Foreign currency

Transaction entered into by the consolidated entities in currencies other than the currency of the primary economic environment in which they operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.



Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Foreign currency (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange fluctuation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange fluctuation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange difference arising are recognised in the exchange fluctuation reserve.

4.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	50 years or over the lease term, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Plant and machinery	6 to 15 years
Water pipelines	10 to 20 years
Furniture, equipment and motor vehicles	5 years
Vessels	10 years



Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Property, plant and equipment (Continued)

The assets' residual value, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

The gain or loss on disposal of an item of property, plant and equipment is the differences between the net sale proceeds and its carrying amounts and is recognised in profit or loss on disposal.

4.7 Prepaid land lease payments

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

The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 4.19.

4.8 Investment properties

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

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

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value, unless it is still in the course of construction or development at the reporting date and its fair value cannot be reliably determined at that time. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised at the reporting date reflect the prevailing market conditions at the reporting date.

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 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 4.3.

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 4.22).

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.

4.10 Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

The Group's intangible assets (other than goodwill) represent up-front payments to acquire the rights to operate a sewage treatment plant and a water supply plant in the People's Republic of China excluding Hong Kong (the "PRC"). Amortisation for the rights to operate a sewage treatment plant and a water supply plant with finite useful lives are provided on straight-line basis over their estimated useful lives of 25 years and 30 years respectively. Both period and method of amortisation are reviewed annually.

Intangible assets with finite useful lives are tested for impairment as described below in note 4.22.

4.11 Financial Instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Financial Instruments (Continued)

(i) Financial assets (Continued)

Financial assets at fair value through profit or loss

These assets 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 sale 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.

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 upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) 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; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Financial Instruments (Continued)

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation

For Loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For Available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the 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 loss is not reversed.

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Financial Instruments (Continued)

(iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortized costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gain or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability 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 liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, accrued liabilities and other payables, due to subsidiaries, due to non-controlling equity holders of subsidiaries, borrowings, and the debt element of convertible bonds issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Financial Instruments (Continued)

(iii) *Financial liabilities (Continued)*

Convertible bonds

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

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

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

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortized cost of financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

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

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual right to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Properties under development

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

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

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

4.13 Inventories and properties held for sale

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

4.14 Service concession arrangements

Service concession arrangements are accounted for as follows if:

- (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 Service concession arrangements (Continued)

Consideration received or receivable by the Group for the construction services

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

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

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial instruments" in note 4.11.

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" in note 4.10.

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

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" in note 4.15.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 4.21.

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

The Group has contractual obligations which it must fulfill as a condition of its licence, that is (a) to maintain the sewage treatment plants and water supply plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage treatment plants and water supply plants are recognised and measured in accordance with the policy set out for "Provisions and contingent liabilities" in note 4.18.



Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Construction contracts

Construction contracts are contracts specifically negotiated for the construction of an asset or a combination of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 4.21.

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

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

4.16 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

4.17 Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand, and short term and demand cash deposits, which are not restricted as to use.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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 economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.19 Leases

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

The Group as lessor

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

4.20 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 share premium (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 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services and the use by others of the Group's assets yielding interests and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- (i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;
- (ii) Revenue from hotel services is recognised based on the period in which such services have been rendered;
- (iii) Revenue arising from water supply is recognised based on water supplied as recorded by meters read during the year;
- (iv) Revenue from sewage treatment is recognised when services are rendered;
- (v) Water supply related installation and construction income is recognised when services are rendered;
- (vi) Revenue from long-term construction contracts is recognised by reference to the percentage of completion of the contract at the reporting date (note 4.15);
- (vii) Dividend is recognised when the right to receive payment is established;
- (viii) Finance income is recognised as it accrues using the effective interest method;
- (ix) Interest income is recognised on a time-proportion basis using the effective interest method; and
- (x) Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term.



Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.22 Impairment of non-financial assets

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.23 Employee benefits

(i) *Deferred contribution retirement plan*

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme.

Contributions to deferred contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) *Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employee up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.24 Share based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit and loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

4.25 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Income tax

Income taxes for the year comprise current tax and deferred tax.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised for to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

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

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entities; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Financial Statements

For the year ended 31 March 2011

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Segment reporting

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

The Group has identified the following reportable segments:

- (i) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment operation and construction" segments, involves the provision of water supply and sewage treatment operation and construction services (including the transfer-operate-transfer ("TOT") and build-operate-transfer ("BOT") arrangements);
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation; and
- (iii) "Other infrastructure construction" segment involves construction of road and other municipal works.

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". "All other segments" includes manufacture and sale of concrete products and other business activities.

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

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

Segment assets consist primarily of intangible assets, goodwill, property, plant and equipment, prepaid land lease payments, inventories and trade receivables and mainly exclude corporate assets, available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial assets and interests in associates. Segment liabilities comprise operating liabilities and exclude items such as taxation, corporate borrowings and other corporate liabilities.

No asymmetrical allocations have been applied to reportable segments.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.28 Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises prepaid land lease payments and the intangible assets (other than goodwill) in accordance with the accounting policies stated in notes 4.6, 4.7 and 4.10 respectively. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

Notes to the Financial Statements

For the year ended 31 March 2011

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(ii) Allowance for and written off of irrecoverable receivables

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

When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for debtors.

(iii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.9. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

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

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

(v) Estimate fair value of investment properties

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

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



Notes to the Financial Statements

For the year ended 31 March 2011

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(vi) Construction contracts

As explained in accounting policies stated in notes 4.15 and 4.21, revenue and profit recognition on an uncompleted project (including the Group's BOT arrangements) is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the reporting date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts record to date.

(vii) Income taxes

The Group is subject to income taxes in the PRC. Significant judgment 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.

(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 judgment 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.

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

As explained in note 4.14, the Group recognises the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

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

Notes to the Financial Statements

For the year ended 31 March 2011

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(x) Valuation for derivative financial instruments

The fair values of derivative financial instruments are determined by using valuation techniques. The Group uses its judgment to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the transaction date and each reporting date with reference to the valuation performed by RHL Appraisal Limited (2010: CB Richard Ellis Limited), an independent firm of professional valuers. The valuation model requires the input of subjective assumptions, including the selection of relevant stock price, expected volatility, expected dividend yield, risk free rate and expected life. Changes in subjective input assumptions can materially affect the fair value estimate.

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

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

(xii) Unlisted equity instruments

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

- the variability in the range of reasonable fair value estimates is significant for that instrument; or
- the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.



Notes to the Financial Statements

For the year ended 31 March 2011

6. SERVICE CONCESSION ARRANGEMENTS

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

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

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

As at 31 March 2011, the Group had five service concession arrangements on water supply and sewage treatment businesses in the PRC and a summary of the major terms of these service concession arrangements are set out as follows:

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

Notes to the Financial Statements

For the year ended 31 March 2011

7. REVENUE AND OTHER INCOME

The Group's principal activities are disclosed in notes 1 and 19 to these financial statements.

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

	2011 HK\$'000	2010 HK\$'000
Revenue:		
Sales of goods	141,443	121,329
Sales of properties	187,504	50,130
Water supply operation services	775,076	632,532
Water supply construction services – intangible assets	2,406	10,558
Water supply related installation	274,554	251,606
Sewage treatment operation services	38,249	35,499
Sewage treatment construction services – financial assets	6,527	40,964
Other infrastructure construction services	–	228,682
Hotel and rental income	7,033	7,611
Finance income	3,823	1,932
Others	41,548	17,325
Total	<u>1,478,163</u>	<u>1,398,168</u>
Other income:		
Interest income	9,683	11,265
Government grants and subsidies #	80,047	56,276
Amortisation of deferred government grants	2,449	2,153
Gain on disposal of land use rights	236	–
Gain on disposal of property, plant and equipment	5,760	1,446
Dividend income from financial assets	12,801	4,821
Miscellaneous income	18,431	11,155
Total	<u>129,407</u>	<u>87,116</u>

Government grants and subsidies mainly comprised unconditional subsidies for subsidising the Group's water supply and other businesses.

Notes to the Financial Statements

For the year ended 31 March 2011

8. SEGMENT INFORMATION

The executive directors have identified the Group's five product and service lines as operating segments as further described in Note 4.27.

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

For the year ended 31 March 2011

	City water supply operation and construction HK\$'000	Sewage treatment operation and construction HK\$'000	Property development and investment HK\$'000	Other infrastructure construction HK\$'000	All other segments HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue							
From external customers	1,084,029	48,599	187,504	-	158,031	-	1,478,163
From inter-segment	4,702	-	-	-	4,514	(9,216)	-
Segment revenue	1,088,731	48,599	187,504	-	162,545	(9,216)	1,478,163
Segment profit/(loss)	389,180	19,881	64,625	(2,335)	45,381	-	516,732
Unallocated corporate income							36,885
Unallocated corporate expense							(119,711)
Gain on disposal of assets classified as held for sale							201,189
Fair value gain on financial assets at fair value through profit or loss							5,197
Change in fair value of derivative financial instruments							(6,476)
Gain on disposal on available-for-sale financial assets							83,525
Deemed gain for the change from available-for-sale financial assets to interests in associates							61,634
Loss on redemption of convertible bonds							(16,460)
Finance costs							(102,742)
Share of results of associates	6,036	-	59,409	-	-	-	65,445
Profit before income tax							725,218
Income tax expense							(124,726)
Profit for the year							600,492
Other segment information							
Addition of investment property	-	-	66,074	-	-	-	66,074
Additions to other non-current segment assets	297,541	2,010	35,684	33	89,911	-	425,179
Amortisation of deferred government grants	(2,209)	(240)	-	-	-	-	(2,449)
Amortisation of other intangible assets	1,922	6,046	-	-	-	-	7,968
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	165,959	388	8,138	285	8,919	-	183,689
Property, plant and equipment written off	96	-	-	-	15	-	111
Gain on disposal of property, plant and equipment	(5,187)	-	-	-	(573)	-	(5,760)
Gain on disposal of land use rights	(236)	-	-	-	-	-	(236)
Fair value gain on investment properties	-	-	(21,033)	-	-	-	(21,033)
Trade receivables written off	1,599	-	-	-	-	-	1,599

Notes to the Financial Statements

For the year ended 31 March 2011

8. SEGMENT INFORMATION (Continued) For the year ended 31 March 2011 (Continued)

	City water supply operation and construction HK\$'000	Sewage treatment operation and construction HK\$'000	Property development and investment HK\$'000	Other infrastructure construction HK\$'000	All other segments HK\$'000	Total HK\$'000
Segment assets	4,212,708	241,925	1,384,016	201,375	288,462	6,328,486
Other financial assets						174,642
Interests in associates	93,723	-	442,394	-	-	536,117
Other corporate assets						1,322,191
						<u>8,361,436</u>
Segment liabilities	891,945	24,586	17,702	162,507	53,882	1,150,622
Deferred tax liabilities						220,944
Provision for tax						124,227
Other corporate liabilities						2,532,314
						<u>4,028,107</u>

For the year ended 31 March 2011, the Group did not depend on any single customers under each of the segments.



Notes to the Financial Statements

For the year ended 31 March 2011

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2010

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

Notes to the Financial Statements

For the year ended 31 March 2011

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2010 (Continued)

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

9. PROFIT FROM OPERATION

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

	2011 HK\$'000	2010 HK\$'000
Cost of inventories sold	846,792	811,606
Depreciation	169,069	136,758
Amortisation of prepaid land lease payments	14,620	7,136
Amortisation of other intangible assets	7,968	7,574
Operating leases in respect of		
– leasehold land and buildings	4,878	7,892
– other property, plant and equipment	22,535	17,025
Auditor's remuneration	5,850	5,300
Staff costs (including directors' emoluments – note 15(a)):		
Salaries and wages	204,104	180,044
Equity-settled share option expenses	–	6,030
Retirement scheme contribution	1,834	1,435
	205,938	187,509
Gain on disposal of land use rights	(236)	–
Loss on partial disposal of convertible bonds	–	2,687
Property, plant and equipment written off	111	95
Inventories written off	–	142
Trade receivables written off	1,599	1,440
Net foreign exchange gain	(42)	(4,702)

10. FINANCE COSTS

	2011 HK\$'000	2010 HK\$'000
Interest on bank loans		
– wholly repayable within five years	48,506	82,685
– not wholly repayable within five years	8,542	3,378
Interest on other borrowings		
– wholly repayable within five years	15,016	20,060
– not wholly repayable within five years	1,318	3,174
Interest on convertible bonds	50,069	21,722
Total borrowing costs	123,451	131,019
Less: interest capitalised included in property, plant and equipment (note)	(20,709)	(18,208)
	102,742	112,811

Note:

Included in construction-in-progress under property, plant and equipment is accumulated interest capitalised of HK\$29,669,000 (2010: HK\$40,977,000) at the capitalisation rates ranging from of 5.9% to 7.8% (2010: 5.9% to 7.8%).

Notes to the Financial Statements

For the year ended 31 March 2011

11. INCOME TAX EXPENSE

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

	2011 HK\$'000	2010 HK\$'000
Current		
– Hong Kong	2,395	–
– PRC	107,224	82,799
	109,619	82,799
Deferred tax (note 39)	15,107	(7,368)
Total income tax expense	124,726	75,431

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

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

	2011 HK\$'000	2010 HK\$'000
Profit before income tax	725,218	520,134
Tax at applicable rate of 16.5% (2010: 16.5%)	119,661	85,822
Tax effect of non-taxable items	(94,283)	(92,979)
Tax effect of non-deductible items	65,178	70,241
Tax concession	(28,104)	(36,250)
Others	19,540	12,212
Effect of different tax rates of subsidiaries operating in other jurisdictions	42,734	36,385
Income tax expense	124,726	75,431

(c) At 31 March 2011, the Group has unused tax losses of HK\$35,493,000 (2010: HK\$61,054,000) available for offsetting against future taxable profits of the companies which incurred these losses. Deferred tax assets have not been recognised in respect of these tax losses due to the unpredictability of future profit streams.

(d) At 31 March 2011, the aggregate amount of temporary differences associated with undistributed earnings of foreign owned PRC subsidiaries for which deferred tax liabilities have not been recognised is HK\$19,118,000 (2010: HK\$12,029,000). No deferred tax liabilities have been recognised in respect of these temporary differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 March 2011

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

Of the consolidated profit for the year attributable to the owners of the Company of HK\$421,905,000 (2010: HK\$301,571,000), a profit of HK\$32,230,000 (2010: loss of HK\$42,348,000) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

(a) Dividends attributable to the year

	2011 HK\$'000	2010 HK\$'000
Proposed final dividend		
– HK\$0.03 (2010: HK\$0.03) per ordinary share	41,576	39,980
Interim dividend		
– HK\$0.02 (2010: HK\$0.02) per ordinary share	27,289	26,552
	<u>68,865</u>	<u>66,532</u>

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the year ended 31 March 2011. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting; and the satisfaction of certain conditions under an Amended DEG Loan Agreement (defined in note 34(iv)) which have been satisfied as of the date of this report.

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

	2011 HK\$'000	2010 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.03 (2010: HK\$0.03) per ordinary share	39,980	36,206
Adjustment to the final dividend (<i>Note</i>)	645	3,600
	<u>40,625</u>	<u>39,806</u>

Note:

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

(c) Dividends recognised as distributions during the year ended 31 March 2011 amounted to HK\$67,914,000 (2010: HK\$66,358,000) or HK\$0.05 per ordinary share (2010: HK\$0.05 per ordinary share).

Notes to the Financial Statements

For the year ended 31 March 2011

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

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$421,905,000 (2010: HK\$301,571,000) and the weighted average of 1,350,426,192 (2010: 1,293,977,152) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2011, the Company's warrants were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$421,905,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was HK\$437,558,000 and on the adjusted weighted average of 1,517,856,764 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,350,426,192 used in basic earnings per share calculation and adjusted for the effect of share options and deemed exercise or conversion of convertible bonds existing during the year of 167,430,572.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2010, the Company's warrants and potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$301,571,000 and on the adjusted weighted average of 1,326,720,048 ordinary shares outstanding during the year, being the weighted average number of ordinary shares 1,293,977,152 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 32,742,896.



Notes to the Financial Statements

For the year ended 31 March 2011

15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

	Directors' fees HK'000	Salaries, allowances and benefits in kind HK'000	Bonuses HK'000	Employee share option benefits HK'000	Retirement scheme contribution HK\$'000	Total HK\$'000
2011						
Executive directors						
Mr. Duan Chuan Liang	–	5,988	30,000	–	12	36,000
Mr. Li Ji Sheng	–	566	–	–	–	566
Non – executive directors						
Mr. Chen Guo Ru	–	180	–	–	–	180
Mr. Zhao Hai Hu	–	430	–	–	–	430
Mr. Zhou Wen Zhi	–	120	–	–	–	120
Mr. Wu Jiesi	–	60	–	–	–	60
Independent non – executive directors						
Ms. Huang Shao Yun	24	–	–	–	–	24
Mr. Chau Kam Wing, Donald	348	–	–	–	–	348
Mr. Wong King Keung	300	–	–	–	–	300
Ms. Liu Dong	72	–	–	–	–	72
	744	7,344	30,000	–	12	38,100
2010						
Executive directors						
Mr. Duan Chuan Liang	–	6,188	6,000	–	12	12,200
Mr. Li Ji Sheng	–	506	272	431	–	1,209
Non – executive directors						
Mr. Chen Guo Ru	–	180	–	215	–	395
Mr. Zhao Hai Hu	–	435	–	431	–	866
Mr. Zhou Wen Zhi	–	120	–	215	–	335
Mr. Wu Jiesi	–	60	–	215	–	275
Independent non – executive directors						
Ms. Huang Shao Yun	24	–	–	–	–	24
Mr. Chau Kam Wing, Donald	348	–	–	–	–	348
Mr. Ong King Keung	300	–	–	–	–	300
Ms. Liu Dong	72	–	–	–	–	72
	744	7,489	6,272	1,507	12	16,024

Notes to the Financial Statements

For the year ended 31 March 2011

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

(a) Directors' emoluments (Continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

Details of the share options granted to directors of the Company are set out in note 41 to the financial statements.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included one director (2010: one director), details of whose emoluments have been disclosed in note (a) above. The emoluments paid to the remaining individuals during the year are as follows:

	2011 HK\$'000	2010 HK\$'000
Salaries, allowances and other benefits	6,191	21,214
Employee share-based compensation expenses	–	2,369
Retirement scheme contribution	48	36
	<u>6,239</u>	<u>23,619</u>

The emoluments fell within the following bands:

	2011	2010
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	3	1
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	–	–
Over HK\$2,500,000	<u>1</u>	<u>1</u>

During the year ended 31 March 2011 and 2010, no emoluments were paid by the Group to the directors and five highest paid employees of the Group as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

For the year ended 31 March 2011

16. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Water pipelines HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Vessels HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 April 2009								
Cost	625,749	14,008	368,926	877,916	52,506	18,340	220,371	2,177,816
Accumulated depreciation	(39,972)	(7,216)	(50,882)	(98,698)	(15,321)	(3,862)	-	(215,951)
Net carrying amount	<u>585,777</u>	<u>6,792</u>	<u>318,044</u>	<u>779,218</u>	<u>37,185</u>	<u>14,478</u>	<u>220,371</u>	<u>1,961,865</u>
Year ended 31 March 2010								
Opening net carrying amount	585,777	6,792	318,044	779,218	37,185	14,478	220,371	1,961,865
Additions	76,671	2,219	7,923	40,161	10,788	93	144,995	282,850
Acquisition of subsidiaries and businesses (note 43)	82,307	1,582	79,062	214,965	4,730	-	571,232	953,878
Disposals	(1,596)	-	(326)	(1,618)	(260)	-	-	(3,800)
Written off	-	-	-	-	(95)	-	-	(95)
Transfers	37,400	277	11,022	620,537	90	-	(669,326)	-
Depreciation	(27,150)	(3,128)	(27,487)	(67,496)	(9,742)	(1,755)	-	(136,758)
Exchange realignment	1,344	17	810	2,035	84	29	1,720	6,039
Closing net carrying amount	<u>754,753</u>	<u>7,759</u>	<u>389,048</u>	<u>1,587,802</u>	<u>42,780</u>	<u>12,845</u>	<u>268,992</u>	<u>3,063,979</u>
At 31 March 2010 and 1 April 2010								
Cost	823,281	18,116	465,601	1,754,409	67,765	18,470	268,992	3,416,634
Accumulated depreciation	(68,528)	(10,357)	(76,553)	(166,607)	(24,985)	(5,625)	-	(352,655)
Net carrying amount	<u>754,753</u>	<u>7,759</u>	<u>389,048</u>	<u>1,587,802</u>	<u>42,780</u>	<u>12,845</u>	<u>268,992</u>	<u>3,063,979</u>
Year ended 31 March 2011								
Opening net carrying amount	754,753	7,759	389,048	1,587,802	42,780	12,845	268,992	3,063,979
Additions	5,422	9,981	26,181	48,410	22,136	98	261,587	373,815
Acquisition of subsidiaries and businesses (note 43)	1,899	9,767	4,048	20,026	561	-	2,085	38,386
Disposals	(40,500)	-	(10,116)	(4,848)	(1,449)	-	(71)	(56,984)
Written off	-	-	(96)	-	(15)	-	-	(111)
Transfers	24,429	-	6,297	43,277	-	-	(74,003)	-
Disposal of subsidiaries	-	-	(165)	-	(144)	-	-	(309)
Depreciation	(29,886)	(1,094)	(32,950)	(91,305)	(11,985)	(1,849)	-	(169,069)
Exchange realignment	34,938	403	18,547	76,190	1,863	569	21,081	153,591
Closing net carrying amount	<u>751,055</u>	<u>26,816</u>	<u>400,794</u>	<u>1,679,552</u>	<u>53,747</u>	<u>11,663</u>	<u>479,671</u>	<u>3,403,298</u>
At 31 March 2011								
Cost	863,555	38,712	501,633	2,047,594	89,417	19,527	479,671	4,040,109
Accumulated depreciation	(112,500)	(11,896)	(100,839)	(368,042)	(35,670)	(7,864)	-	(636,811)
Net carrying amount	<u>751,055</u>	<u>26,816</u>	<u>400,794</u>	<u>1,679,552</u>	<u>53,747</u>	<u>11,663</u>	<u>479,671</u>	<u>3,403,298</u>

Notes to the Financial Statements

For the year ended 31 March 2011

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

Company

	Leasehold improvements HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Total HK\$'000
At 1 April 2009			
Cost	–	2,760	2,760
Accumulated depreciation	–	(739)	(739)
Net carrying amount	–	2,021	2,021
Year ended 31 March 2010			
Opening net carrying amount	–	2,021	2,021
Additions	277	684	961
Written off	–	(95)	(95)
Depreciation	(37)	(385)	(422)
Exchange realignment	–	4	4
Closing net carrying amount	240	2,229	2,469
At 31 March 2010 and 1 April 2010			
Cost	277	3,362	3,639
Accumulated depreciation	(37)	(1,133)	(1,170)
Net carrying amount	240	2,229	2,469
Year ended 31 March 2011			
Opening net carrying amount	240	2,229	2,469
Additions	–	1,215	1,215
Depreciation	(55)	(588)	(643)
Exchange realignment	–	83	83
Closing net carrying amount	185	2,939	3,124
At 31 March 2011			
Cost	277	4,668	4,945
Accumulated depreciation	(92)	(1,729)	(1,821)
Net carrying amount	185	2,939	3,124

Notes:

- (a) The Group's buildings included above are located on land held under medium term leases in the PRC.
- (b) As at 31 March 2011, the Group's property, plant and equipment at the net carrying amount of HK\$164,158,000 (2010: HK\$101,026,000) were pledged to secure banking facilities granted to the Group (note 34(i)(c)).

Notes to the Financial Statements

For the year ended 31 March 2011

17. PREPAID LAND LEASE PAYMENTS – GROUP

	2011 HK\$'000	2010 HK\$'000
At beginning of the year		
Cost	445,021	232,088
Accumulated amortisation	(15,857)	(9,275)
Net carrying amount	429,164	222,813
For the year ended		
Opening net carrying amount	429,164	222,813
Acquisition of subsidiaries and businesses (note 43)	3,260	139,403
Additions	48,958	77,276
Disposals	(44,246)	(3,655)
Amortisation	(14,620)	(7,136)
Exchange realignment	20,162	463
Net carrying amount	442,678	429,164
At end of the year		
Cost	471,113	445,021
Accumulated amortisation	(28,435)	(15,857)
Net carrying amount	442,678	429,164

The Group's prepaid land lease payments represent up-front payments to acquire interest in the usage of land situated in the PRC, which are held under medium term leases (2010: medium term leases).

As at 31 March 2011, the Group's prepaid land lease payments included certain land use rights with a net carrying amount of HK\$6,863,000 (2010: HK\$6,753,000) for which the Group is still in the process of obtaining the land use rights certificates. In the opinion of the directors of the Company, the Group has obtained the rights to use these lands. As confirmed by the Group's legal advisers, there is no legal impediment for the Group to obtain these land use rights certificates.

As at 31 March 2011, the Group's prepaid land lease payments with a net carrying amount of HK\$64,368,000 (2010: HK\$16,998,000) were pledged to secure banking facilities granted to the Group (note 34(i)(d)).

Notes to the Financial Statements

For the year ended 31 March 2011

18. INVESTMENT PROPERTIES – GROUP

	2011 HK\$'000	2010 HK\$'000
Carrying amount at beginning of the year	718,409	670,900
Additions	66,074	27,536
Fair value gain	21,033	18,600
Exchange realignment	34,711	1,373
Carrying amount at end of the year	840,227	718,409

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

As at 31 March 2011, the investment properties included certain land use rights with a carrying amount of approximately HK\$66,074,000 (2010: HK\$99,773,000) and HK\$175,831,000 (2010: Nil) for which the Group is still in the process of obtaining the land use rights certificates and changing the name of holder of land use rights certificates arising from the intra-group transfer, respectively. In the opinion of the directors of the Company, the Group has obtained the rights to use these lands pursuant to the relevant government approval documents. As confirmed by the Group's legal advisers, there is no legal impediment for the Group to obtain these land use rights certificates.

Investment properties were revalued on 31 March 2011 by RHL Appraisal Limited (2010: CB Richard Ellis Limited), an independent firm of professional valuers on an open market basis and on the assumption that the Group sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the value. Valuations were based on market evidence of recent transaction prices for similar properties and adjusted for the differences.

As at 31 March 2011, the Group's investment properties with a carrying amount of approximately HK\$282,143,000 (2010: HK\$229,332,000) were pledged to secure banking facilities granted to the Group (note 34(i)(e)).

19. INTERESTS IN SUBSIDIARIES – COMPANY

	2011 HK\$'000	2010 HK\$'000
Unlisted shares, at cost	990,086	893,505
Due from subsidiaries	899,016	619,373
Less: Provision for impairment	(24,212)	(24,212)
Due within one year included under current assets	874,804	595,161
Due to subsidiaries	(303,915)	(263,034)

Notes to the Financial Statements

For the year ended 31 March 2011

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2011 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	–	100%	Investment holding
China Water Group (HK) Limited	BVI/Hong Kong	1 share of US\$1	100%	–	Investment holding
Sharp Profit Investments Limited	BVI/Hong Kong	1 share of US\$1	100%	–	Investment holding
Good Outlook Investments Limited	BVI/Hong Kong	1 share of US\$1	100%	–	Investment holding
Oceanup Investments Limited	BVI/Hong Kong	1 share of US\$1	100%	–	Investment holding
China Water Supply Group Limited	Hong Kong	2 shares of HK\$1 each	–	100%	Investment holding
China Kolon Water Management Company Limited (“China Kolon”)	Hong Kong	2,633,333,300 shares of HK\$0.01 each	100% (2010: 51%)	–	Investment holding
Ming Hing Waterworks Engineering (PRC) Limited	BVI/Hong Kong	100 shares of US\$1 each	–	100%	Investment holding
New Prime Holdings Limited (i)	BVI/Hong Kong	1 shares of US\$1 each	100%	–	Investment holding
Fortune Trend Holdings Limited (i)	Hong Kong	1 share of HK \$1 each	–	100%	Investment Holding
長沙(中國水務)有限公司 (“長沙(中國水務)”)*	PRC	Registered capital of RMB40,000,000	–	90%	Water supply and water supply infrastructure

Notes to the Financial Statements

For the year ended 31 March 2011

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2011 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*	PRC	Registered capital of US\$60,589,200	36.9%	14.1%	Water supply
荊州水務鼎鑫源工程有限公司^	PRC	Registered capital of RMB20,000,000	–	51%	Water supply infrastructure
荊州中水#	PRC	Registered capital of US\$8,200,000	100%	–	Sewage treatment
江陵銀龍水務有限公司*	PRC	Registered capital of USD2,580,000	32.2%	67.8%	Water supply
重慶市永川區橋立水務有限公司#	PRC	Registered capital of RMB42,200,000	100%	–	Water supply
重慶橋立市政設施工程有限公司*	PRC	Registered capital of RMB5,000,000	10%	90%	Water supply infrastructure
重慶橋立管道制造有限公司 ("重慶橋立管道") ^ (note 43(c))	PRC	Registered capital of RMB50,000,000 (2010: RMB13,000,000)	–	100%	Trading and manufacturing of water pipelines
重慶市永川區佳和自來水有限責任公司 ("永川佳和") ^ (i) (note 43(a))	PRC	Registered capital of RMB3,500,000	–	90%	Water supply
江西萬年銀龍水務有限責任公司*	PRC	Registered capital of USD35,090,000	99.6%	0.4%	Water supply
江西省銀龍大酒店有限公司*	PRC	Registered capital of RMB1,000,000	65%	35%	Hotel operation
鉛山銀龍#	PRC	Registered capital of RMB18,000,000	–	100%	Water supply operation and construction
鉛山中水#	PRC	Registered capital of USD2,000,000	100%	–	Sewage treatment operation and construction

Notes to the Financial Statements

For the year ended 31 March 2011

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2011 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	
分宜中水*	PRC	Registered capital of RMB6,000,000	–	98% (2010: 53.45%)	Sewage treatment operation and construction
萬年中水#	PRC	Registered capital of USD3,000,000	5%	95% (2010: 48.45%)	Sewage treatment operation and construction
上海倍臣水務發展有限公司 ("上海倍臣") ^	PRC	Registered capital of RMB167,600,000	–	100%	Investment holding
上海銀龍股權投資有限公司 (formerly known as 上海銀龍水務 投資有限公司)("上海銀龍") ^	PRC	Registered capital of RMB500,000,000	–	100% (2010: 95%)	Investment holding
江河水務有限公司^	PRC	Registered capital of RMB225,000,000	–	100% (2010: 95%)	Investment holding
江河港水務(常州)有限公司 ("江河港武") ^ (ii) (note 43(f))	PRC	Registered capital of RMB237,000,000	–	40% (2010: 38%)	Water supply
北京江河旋龍水泵技術有限公司 ("江河旋龍") ^	PRC	Registered capital of RMB4,000,000 (2010: RMB3,000,000)	–	52% (2010: 95%)	Water pump technology development
北京中水建投實業有限公司 ("北京中水") ^	PRC	Registered capital of RMB211,350,000	–	56.88% (2010: 54.04%)	Property development and investment
北京上河元酒店有限公司 ("北京上河元") ^ (note 43(e))	PRC	Registered capital of RMB171,600,000	–	84.89% (2010: 80.65%)	Property investment

Notes to the Financial Statements

For the year ended 31 March 2011

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2011 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	
海南興水城鄉供水有限公司 [^]	PRC	Registered capital of RMB15,830,000	–	56.85% (2010: 54%)	Water supply
宜豐縣銀龍水務有限公司 ("宜豐銀龍")* (i) (note 43(b))	PRC	Registered capital of RMB52,800,000	55%	–	Water supply
新余水務集團有限公司*	PRC	Registered capital of RMB100,000,000	60%	–	Water supply
新余市建和混凝土有限責任公司*	PRC	Registered capital of RMB10,000,000	25.90%	29.16%	Manufacture and sale of concrete products
新余市滄泉水業有限責任公司 [^]	PRC	Registered capital of RMB50,000,000	–	60%	Water supply infrastructure
新余仙女湖新城開發有限公司 ("新城開發") *	PRC	Registered capital of RMB124,948,500 (2010: RMB100,000,000)	20.01% (2010: 15%)	34.42% (2010: 43%)	Development and infrastructure of sightseeing area
新余水務置業有限責任公司*	PRC	Registered capital of RMB20,000,000	–	54%	Property development and investment
新余仙女湖新城房地產開發有限公司 [^]	PRC	Registered capital of RMB20,500,000 (2010: RMB20,000,000)	–	54.43% (2010: 58%)	Property development and investment
新余市綠楓園林設計有限責任公司 [^]	PRC	Registered capital of RMB500,000	–	60.0% (2010: 30.6%)	Landscape design and engineering
新余市格林園林有限公司 ("新余格林") [^]	PRC	Registered capital of RMB10,000,000	–	60.0% (2010: 30.6%)	Landscape design and engineering
新余仙女湖聖祥發展有限責任公司 [^] (i)(ii)	PRC	Registered capital of RMB20,000,000	–	27.76%	Investment holding

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For the year ended 31 March 2011

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2011 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	
上栗銀龍水務有限公司 [^]	PRC	Registered capital of RMB14,500,000	–	60%	Water supply and water supply infrastructure
高安水務有限公司*	PRC	Registered capital of RMB60,000,000	60%	–	Water supply
分宜銀龍水務有限公司 [^]	PRC	Registered capital of RMB25,000,000	–	100%	Water supply
廣東仁化銀龍供水有限公司*	PRC	Registered capital of RMB17,260,000	–	73%	Water supply
河南銀龍供水有限公司(“河南銀龍”) #	PRC	Registered capital of RMB140,833,077	–	100%	Investment holding
河南銀龍(扶溝)供水有限公司#	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure
河南銀龍(西華)供水有限公司*	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure
周口銀龍水務有限公司*	PRC	Registered capital of RMB50,000,000	–	70%	Water supply and water supply infrastructure
周口銀龍置業有限公司 [^]	PRC	Registered capital of RMB8,000,000	–	70%	Property development
河南鹿邑銀龍供水有限公司#	PRC	Registered capital of RMB14,000,000	–	100%	Water supply and water supply infrastructure
江門市粵南供水消防工程有限公司 [^] (ii)	PRC	Registered capital of RMB3,000,000	–	50%	Fire work installation
江門水務置業有限公司# (i)(ii)	PRC	Registered capital of RMB20,000,000	–	50%	Property development
廣東新會水務有限公司* (ii)	PRC	Registered capital of RMB150,000,000	40%	10%	Water supply and water supply infrastructure

Notes to the Financial Statements

For the year ended 31 March 2011

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2011 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	
德興市銀龍水務發展有限公司# (i)	PRC	Registered capital of RMB15,000,000	100%	–	Water supply
惠州中水水務發展有限公司*	PRC	Registered capital of RMB100,000,000	20%	50%	Water supply and water supply infrastructure
惠州大亞灣溢源淨水有限公司 (“大亞灣溢源”) ^	PRC	Registered capital of RMB11,710,000	–	59.78% (2010: 41.85%)	Water supply and water supply infrastructure
惠州中水房地產有限公司# (i)	PRC	Registered capital of RMB20,000,000	–	70%	Property development
寧鄉中水市政工程有限公司^	PRC	Registered capital of RMB5,000,000	–	90%	Water supply infrastructure
寧鄉水務置業有限公司^	PRC	Registered capital of RMB20,000,000	–	90%	Property investment

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

registered as wholly-foreign owned enterprises under the PRC law

^ registered as a limited liability company under the PRC law

(i) acquired/incorporated/established/injected during the year ended 31 March 2011

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

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

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

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand. Accordingly, the amounts are classified as current assets and current liabilities respectively.



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For the year ended 31 March 2011

20. INTERESTS IN ASSOCIATES – GROUP

	2011 HK\$'000	2010 HK\$'000
Share of net assets	398,082	88,149
Goodwill	138,035	–
	536,117	88,149

Particulars of the associates as at 31 March 2011 are as follow:

Name	Place of establishment	Particulars of issued capital	Percentage of equity interest attributable to the Company	Group's effective interest held	Profit sharing	Principal activities
China Water Property Group Limited ("Water Property")*	Cayman Island	Issued capital of 12,557,306,151 shares (2010: 8,490,020,345) of HK\$0.01 each	Direct 6.27% Indirect 22.38%	28.65%	28.65%	Property development, production and distribution of snack food and convenience frozen food products
梧州粵海江河水務有限公司("梧州粵海")^	PRC	Registered capital of RMB110,000,000	Indirect 49%	49% (2010: 46.55%)	49% (2010: 46.55%)	Water supply
梧州市建標水表檢定中心("梧州建標")^	PRC	Registered capital of RMB100,000	Indirect 49%	49% (2010: 46.55%)	49% (2010: 46.55%)	Water meter technology development
廣西梧州自來水工程有限公司("梧州自來水")^	PRC	Registered capital of RMB5,000,000	Indirect 49%	49% (2010: 46.55%)	49% (2010: 46.55%)	Water supply infrastructure

* Water Property is listed on the Stock Exchange (Stock code:2349). During the year, Water Property became an associate of the Group. As at 31 March 2010, the Group hold 23.38% of Water Property but the investments in Water Property were accounted for under available-for-sale financial assets. This was because the director of the Company were of the opinion that the Group did not have significantly influence in the financial and operating policy-making process of Water Property. On 25 October 2010, Water Property became an associate of the Group following the appointment of a director of Water Property by the Group. In the opinion of the directors, to give details of its subsidiaries of Water Property would result in particulars of excessive length.

^ For the associates acquired during the year ended 31 March 2010, there was excess over the cost of business combination recognised in profit or loss amounted to HK\$18,560,000.

Notes to the Financial Statements

For the year ended 31 March 2011

20. INTERESTS IN ASSOCIATES – GROUP (Continued)

The financial statements of the above associates are coterminous with those of the Group, except for Water Property which has a financial year ending 31 December. There were no material transactions carried out by Water Property from 1 January 2011 to 31 March 2011.

The aggregated amounts of the following financial information of the Group's associates are extracted from their financial statements:

	2011 HK\$'000	2010 HK\$'000
Assets	3,051,819	243,283
Liabilities	1,495,988	63,387
Revenue	1,092,904	–
Profit	528,114	–

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

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

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (a))	63,475	106,734	–	–
Listed equity securities in Hong Kong, at fair value (note (b))	–	317,553	84,285	126,033
Unlisted equity securities outside Hong Kong, at cost (notes (c))	59,715	31,225	40,032	9,091
	123,190	455,512	124,317	135,124

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

Notes:

- (a) The Group held certain convertible bonds issued by Water Property (the “Water Property Convertible Bonds”) which are due on 13 November 2017 and are convertible into fully paid ordinary shares of Water Property with a par value of HK\$0.01 each (the “Water Property Shares”) at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. On 27 October 2009, the conversion price was adjusted to HK\$0.045. The Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the Water Property Convertible Bonds does not trigger a mandatory offer obligation under The Hong Kong Code on Takeovers and Mergers. The Water Property Convertible Bonds can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date.

The Group held the Water Property Convertible Bonds with a principal amount of HK\$141,550,000 as at 31 March 2010. During the year ended 31 March 2011, a principal amount of HK\$60,000,000 Water Property Convertible Bonds were converted into 1,333,333,333 ordinary shares of Water Property with a par value of HK\$0.01 each at the conversion price of HK\$0.045. After the above conversion, the Group held the Water Property Convertible Bonds with a principal amount of HK\$81,550,000 as at 31 March 2011.

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

The fair value of the debt element was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to instruments of similar terms. The effective interest rates of the debt element at 31 March 2011 is 7.409% (2010: 5% to 7.47%). The fair values of the debt element have been determined by RHL Appraisal Limited (2010: CB Richard Ellis Limited), an independent firm of professional valuers.

The fair value of the conversion options element are determined by the directors of the Company with reference to the valuation performed by RHL Appraisal Limited (2010: CB Richard Ellis Limited), an independent firm of professional valuers on Binomial model basis.

The major inputs used in the model are as follows:

	2011	2010
Stock price	HK\$0.107	HK\$0.165
Expected volatility	79.785%	95.30%
Risk free rate	2.271%	2.589%
Expected dividend yield	Nil	Nil

Notes to the Financial Statements

For the year ended 31 March 2011

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

Notes (Continued):

(a) (Continued)

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

	Debt element – Unlisted debt securities HK\$'000	Conversion options element – Conversion options embedded in convertible bonds (note i) HK\$'000
Net carrying amount at 1 April 2009	56,497	61,984
Disposals	(9,333)	(30,854)
Change in fair value		
– charged to profit or loss	43,871	111,767
– charged to equity	15,699	–
Net carrying amount at 31 March 2010 and at 1 April 2010	106,734	142,897
Conversion into Water Property Shares	(40,726)	(56,921)
Change in fair value		
– charged to profit or loss	–	(38,586)
– charged to equity	(2,533)	–
Net carrying amount at 31 March 2011	63,475	47,390

(i) The conversion options embedded in Water Property Convertible Bonds are classified as derivative financial assets in consolidated statement of financial position under current assets.

(b) Water Property is listed on the Stock Exchange. As at 31 March 2010, the investments of Water Property Shares are classified as available-for-sale financial assets and are not equity accounted for under HKAS28 "Investments In Associates". Details have been set out in note 20 to the financial statements. Following Water Property became an associate of the Group during the year, the investments of Water Property Shares have been derecognised from available-for-sale financial assets in the consolidated statement of financial position. The investment of Water Property Shares is still classified as available-for-sale financial assets in the statement of financial position of the Company.

(c) The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.



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For the year ended 31 March 2011

22. GOODWILL – GROUP

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

	2011 HK\$'000	2010 HK\$'000
At beginning of the year		
Gross carrying amount	175,343	155,126
Accumulated impairment	–	–
Net carrying amount	175,343	155,126
For the year ended		
Net carrying amount at beginning of year	175,343	155,126
Acquisition of subsidiaries (note 43(a))	4,735	14,721
Disposal	(14,877)	–
Exchange realignment	7,466	5,496
Net carrying amount at end of year	172,667	175,343
At end of the year		
Gross carrying amount	172,667	175,343
Accumulated impairment	–	–
Net carrying amount	172,667	175,343

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

- water supply cash-generating unit (“water supply CGU”) within city water supply operation and construction segment; and
- other cash-generating unit (“other CGU”).

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

	Water supply CGU HK\$'000	Other CGU HK\$'000	Total HK\$'000
Carrying amount at 31 March 2011	171,868	799	172,667
Carrying amount at 31 March 2010	159,704	15,639	175,343

Notes to the Financial Statements

For the year ended 31 March 2011

22. GOODWILL – GROUP (Continued)

The recoverable amounts for the above cash-generating units were determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 3% – 4% (2010: 3%) and discount rate of 11% – 12.72% (2010: 11%) estimated by the management with reference to the valuation performed by RHL Appraisal Limited (2010: CB Richard Ellis Limited), an independent firm of professional valuers.

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

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

23. OTHER INTANGIBLE ASSETS – GROUP

	Sewage treatment concession rights (note a)		Water supply concession rights (note b)		Total	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
At beginning of the year						
Cost	147,727	147,426	50,350	39,711	198,077	187,137
Accumulated amortisation	(17,727)	(11,795)	(4,241)	(2,571)	(21,968)	(14,366)
Net carrying amount	130,000	135,631	46,109	37,140	176,109	172,771
For the year ended						
Opening net carrying value	130,000	135,631	46,109	37,140	176,109	172,771
Additions	–	–	2,406	10,558	2,406	10,558
Amortisation	(6,047)	(5,909)	(1,921)	(1,665)	(7,968)	(7,574)
Exchange realignment	6,047	278	2,071	76	8,118	354
Net carrying amount	130,000	130,000	48,665	46,109	178,665	176,109
At end of the year						
Cost	154,762	147,727	55,075	50,350	209,837	198,077
Accumulated amortisation	(24,762)	(17,727)	(6,410)	(4,241)	(31,172)	(21,968)
Net carrying amount	130,000	130,000	48,665	46,109	178,665	176,109

Notes to the Financial Statements

For the year ended 31 March 2011

23. OTHER INTANGIBLE ASSETS – GROUP (Continued)

Notes:

- (a) Pursuant to several agreements between a wholly-owned subsidiary of the Company, namely 荊州中水 and a relevant authority in the PRC, namely 荊州市建設委員會, during the year ended 31 March 2007, 荊州中水 obtained the right to operate a sewage treatment plant located at Jingzhou City of Hubei Province in the PRC for a period of 25 years at an aggregate consideration of RMB130 million on a TOT basis. The 荊州中水 is entitled to use all the property, plant and equipment of the sewage treatment plant and to charge for the sewage treatment services at the initial tariff of RMB0.78 per cubic meter.

As at 31 March 2011 and 2010, the entire sewage treatment concession rights were pledged at a maximum period of 20 years as security for banking facilities granted to the Group (note 34(i)(h)).

- (b) Pursuant to a concession agreement between a wholly-owned subsidiary of the Company, namely 鉛山銀龍 and a relevant authority in the PRC, namely 鉛山縣建設局, during the year ended 31 March 2008, 鉛山銀龍 obtained the right to operate a water supply plant located at Yanshan City of Jiangxi Province in the PRC for a period of 30 years commencing from 1 June 2007 at an aggregate consideration of RMB6.65 million on a TOT basis. 鉛山銀龍 is entitled to use all the property, plant and equipment of the water supply plant. The Group also entered into a BOT arrangement with the same grantor for the construction of water supply plant.

As at 31 March 2011 and 2010, the entire water supply concession rights were pledged as security for banking facilities granted to the Group (note 34(i)(h)).

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

	Notes	Group		Company	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Non-current					
Deposits for acquisition of equity securities	(i), (ii)	170,476	44,318	–	–
Other deposits	(iii)	91,133	86,847	–	–
		<u>261,609</u>	<u>131,165</u>	<u>–</u>	<u>–</u>
Deposits		261,609	131,165	–	–
Prepayments	(iv)	26,266	60,055	–	–
		<u>287,875</u>	<u>191,220</u>	<u>–</u>	<u>–</u>
Current					
Loan receivable	(v)	100,000	–	–	–
Prepayments		113,721	40,473	2,761	2,180
Deposits		2,206	2,555	186	170
Other receivables		299,710	190,283	5,400	11,133
		<u>515,637</u>	<u>233,311</u>	<u>8,347</u>	<u>13,483</u>

Notes to the Financial Statements

For the year ended 31 March 2011

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

Notes:

- (i) As at 31 March 2011, the deposits for acquisition of equity securities mainly comprised the followings:
 - (a) An amount of approximately HK\$150,238,000 represented the deposits paid by the Group in relation to the acquisition of an additional 33% equity interest in 北京中水 which is a company incorporated in the PRC and principally engaged in property development and investment.
 - (b) An amount of approximately HK\$4,167,000 represented the deposits paid by the Group in relation to the acquisition of 60% equity interest in 寧鄉縣順發建築材料有限公司 which is a company incorporated in the PRC and principally engaged in manufacture and sale of concrete products.
 - (c) An amount of approximately HK\$4,167,000 represented the deposits paid by the Group in relation to the acquisition of 51% equity interest in 鄭州盛祥建築工程有限公司 which is a company incorporated in the PRC and principally engaged in water supply infrastructure.
 - (d) An amount of approximately HK\$11,904,000 represented the deposits paid by the Group in relation to the acquisition of 70% equity interest in 吉安市供水公司 which is a company incorporated in the PRC and principally engaged in water supply.
- (ii) As at 31 March 2010, the deposits for acquisition of equity securities mainly comprised the followings:
 - (a) An amount of approximately HK\$10,227,000 represented the deposits paid by the Group in relation to the acquisition of 90% equity interest in 永川佳和 which is a company incorporated in the PRC and principally engaged in water supply.
 - (b) An amount of approximately HK\$32,954,000 represented the deposits paid by the Group in relation to the acquisition of 25.62% equity interest in 大亞灣溢源 which is a company incorporated in the PRC and principally engaged in water supply.
- (iii) As at 31 March 2011 and 2010, balances mainly represented deposits paid for acquisition of land use rights for the Group's business expansion.
- (iv) As at 31 March 2011 and 2010, the amount mainly represented the Group's prepaid rental of land situated in the PRC and prepayment for construction work for own use.



Notes to the Financial Statements

For the year ended 31 March 2011

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

Notes:

- (v) On 1 December 2010, (i) the Group as the lender and Mitsumaru East Kit (Holdings) Limited (“Mitsumaru”) as the borrower entered into a loan agreement and pursuant to which the Group agreed to make available to the Mitsumaru the loan up to a principal amount of HK\$100,000,000 (the “Loan”) in cash (the “Mitsumaru Loan Agreement”); (ii) the Group as the lender and Mitsumaru as the borrower entered into a debenture as a security for the repayment of the Loan; (iii) Mitsumaru as the issuer and the Group as the subscriber entered into the subscription agreement setting out the terms and conditions of the subscription of new shares of Mitsumaru (the “Subscription Agreement”), pursuant to which Mitsumaru has agreed to issue and the Group has agreed to subscribe for 1,000,000,000 new shares of Mitsumaru (the “Subscription Shares”), at a subscription price of HK\$0.10 per Subscription Share upon and subject to the terms and conditions set out in the Subscription Agreement. The Loan was drawdown on 2 December 2010.

Subject to the fulfillment (or waiver by the Group) of conditions precedent of the Subscription Agreement on or before 31 March 2011 (subsequently extended to 30 June 2011 based on a supplemental subscription agreement date 7 March 2011), the subscription price is to be satisfied by way of offsetting against the sums owned by Mitsumaru to the Group under the Mitsumaru Loan Agreement. As mentioned in the Subscription Agreement, Mitsumaru shall use its best endeavors to obtain the Stock Exchange’s approval for resumption of trading of its shares. With successful resumption of trading of Mitsumaru’s shares, Mitsumaru will have additional financing from a proposed issue of its new shares on the basis of 15 shares for every 4 shares held by certain qualifying shareholders of Mitsumaru to raise no less than HK\$150 million. (the “Open Offer”). Completion of the Subscription Agreement is not conditional on completion of the Open Offer. Completion of the subscription will take place as soon as possible after the fulfillment of the conditions precedent under the Subscription Agreement.

The Subscription Agreement is conditional upon, inter alia:

- (a) the Stock Exchange having granted or stated that it will grant (either unconditionally or subject only to conditions to which the Group and Mitsumaru do not reasonably object) approval for (i) the resumption of trading of the Mitsumarus’ shares (the “Resumption of Trading”); and (ii) the listing of and permission to deal in the Subscription Shares;
- (b) the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong granting waiver by the executive pursuant to Note 1 of the notes on dispensation from Rule 26 of the Hong Kong Code on Takeovers and Mergers from the obligation of the Group (together with its concert parties), to make a general offer for all of the Mitsumaru’s shares not already owned or agreed to be acquired by them as a result of subscribing for the Subscription Shares) (the “Whitewash Waiver”); and
- (c) the passing by Mitsumaru’s shareholder(s) other than Mr. Zhang Shuyang, a major shareholder of Mitsumaru and his associates and the shareholders who are involved in or interested in (other than solely as Mitsumaru shareholder) the Subscription Agreement, the Open Offer and the Whitewash Waiver or the respective transactions contemplated therein by way of a poll at the extraordinary general meeting of a resolution approving the issue of the Subscription Shares, the Whitewash Waiver and the increase in authorised share capital of Mitsumaru in accordance with the Listing Rules.

Notes to the Financial Statements

For the year ended 31 March 2011

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

Notes:

- (v) In other words, upon fulfillment of the conditional precedent of the Subscription Agreement including, inter alia, approval for the Resumption of Trading, the Group is obliged to complete the subscription.

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

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



Notes to the Financial Statements

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25. PROPERTIES UNDER DEVELOPMENT – GROUP

	2011 HK\$'000	2010 HK\$'000
At cost		
At beginning of the year	166,216	115,219
Additions	48,029	93,604
Transfer to properties held for sale	(188,536)	(42,843)
Exchange realignment	4,591	236
At end of the year	<u>30,300</u>	<u>166,216</u>

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

As at 31 March 2011, no properties under development of the Group (2010: HK\$63,466,000) were pledged to secure banking facilities granted to the Group (note 34(i)(f)).

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

26. PROPERTIES HELD FOR SALE – GROUP

	2011 HK\$'000	2010 HK\$'000
At cost		
At beginning of the year	1,511	–
Transfer from properties under development	188,536	42,843
Sales for the year	(127,656)	(41,332)
Exchange realignment	1,522	–
At end of the year	<u>63,913</u>	<u>1,511</u>

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

As at 31 March 2011, the Group's properties held for sale with a carrying amount of approximately HK\$21,039,000 (2010: Nil) were pledged to secure banking facilities granted to the Group (note 34(i)(g)).

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

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For the year ended 31 March 2011

27. INVENTORIES – GROUP

	2011 HK\$'000	2010 HK\$'000
Raw materials and supplies	69,128	51,173
Work-in-progress	20,171	3,557
Finished goods	6,293	1,257
	95,592	55,987

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

28. TRADE RECEIVABLES – GROUP

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

	2011 HK\$'000	2010 HK\$'000
0 to 90 days	111,934	138,774
91 to 180 days	37,648	58,592
Over 180 days	209,565	341,634
Neither past due nor impaired	359,147	539,000

As at 31 March 2011, the Group's trade receivables included an amount of approximately HK\$117,016,000 (2010: HK\$390,956,000) relating to the trade receivables of construction contracts.

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

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

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29. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK – GROUP

The Group recognised financial assets – amounts due from grantors for contract work in respect of its sewage treatment business arising from certain BOT arrangements. Details of the service concession arrangements of the Group is set out in note 6.

Amounts due from grantors for contract work represented revenue from construction services under BOT arrangements and bear interest at rate of 5.9% (2010: 5.9%) per annum. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the BOT arrangements.

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

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Listed equity securities, at market value:				
– Hong Kong	380	1,053	380	1,053
– Elsewhere	1,801	52,788	–	–
	2,181	53,841	380	1,053
Unlisted investment at fair value	1,881	–	–	–
	4,062	53,841	380	1,053

Fair values of the listed equity securities have been determined by reference to their quoted bid prices at the reporting date in an active market. Fair value of the unlisted investment was based on the value quoted by the issuers at the end of the reporting date.

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

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Cash at banks and in hand	751,303	501,201	353,089	142,674
Short-term deposits	123,205	104,588	–	63,600
	874,508	605,789	353,089	206,274
Deposit pledged against banking facilities granted to mortgagees	(4,328)	–	–	–
Deposit pledged for bank loan (note 34(i))	(20,011)	(83,111)	–	(63,600)
Deposit pledged for bill payables	(1,534)	–	–	–
	(25,873)	(83,111)	–	(63,600)
Cash and cash equivalents as stated in the statement of financial position	848,635	522,678	353,089	142,674
Short-term deposits with an original maturity of more than 3 months	(61,190)	–	–	–
Cash and cash equivalents for the presentation of the statement of cash flows	787,445	522,678	353,089	142,674

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for seven days to six months (2010: seven days) depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates of 0.78% to 12% (2010: 1.35%) per annum.

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

As at 31 March 2011, the Group had cash and cash equivalents and pledged deposits denominated in Renminbi (“RMB”) amounting to approximately HK\$424,774,000 (2010: HK\$341,746,000) in the PRC. 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.

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32. TRADE PAYABLES – GROUP

The credit terms of trade payables vary according to the terms agreed with different suppliers. Based on the invoice dates, the ageing analysis of the Group's trade payables as at the reporting date is as follows:

	2011 HK\$'000	2010 HK\$'000
0 to 90 days	84,728	95,170
91 to 180 days	34,905	30,969
Over 180 days	227,074	200,709
	346,707	326,848

As at 31 March 2011, the bills payables of HK\$5,102,000 (2010: Nil) were secured by the pledged bank deposits of HK\$1,534,000 (2010: Nil).

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

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Accrued liabilities	29,357	43,166	6,132	16,158
Deposits received	214,448	275,373	–	41,255
Other payables	501,899	419,634	17,839	4,782
	745,704	738,173	23,971	62,195

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34. BORROWINGS – GROUP

	Notes	Original currency	2011 HK\$'000	2010 HK\$'000
Current				
Bank loans – unsecured	(ii)	RMB	79,762	143,182
Bank loans – secured	(i), (ii)	RMB	324,631	227,528
Other loans – unsecured	(iii)	RMB	76,649	128,891
Other loans – secured	(i), (iii)	RMB	69,048	65,909
Other loans – secured	(iv)	USD	54,410	54,407
Government loans – unsecured	(v)	RMB	18,897	16,898
			623,397	636,815
Non-current				
Bank loans – unsecured	(ii)	RMB	35,714	312,500
Bank loans – secured	(i), (ii)	RMB	871,548	917,375
Other loans – unsecured	(iii)	RMB	50,762	3,398
Other loans – secured	(i), (iii)	RMB	10,714	–
Other loans – secured	(iv)	USD	163,229	217,627
Government loans – unsecured	(v)	RMB	79,167	85,060
			1,211,134	1,535,960
			1,834,531	2,172,775

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For the year ended 31 March 2011

34. BORROWINGS – GROUP (Continued)

	2011 HK\$'000	2010 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	404,393	370,710
In the second year	319,048	280,898
In the third to fifth years, inclusive	429,107	742,216
Beyond five years	159,107	206,761
	1,311,655	1,600,585
Other loans repayable:		
Within one year or on demand	200,107	249,207
In the second year	73,993	56,668
In the third to fifth years, inclusive	150,712	164,357
	424,812	470,232
Government loans repayable:		
Within one year or on demand	18,897	16,898
In the second year	27,818	35,498
In the third to fifth years, inclusive	25,995	22,563
Beyond five years	25,354	26,999
	98,064	101,958

Notes:

- (i) The Group's bank loans and other loans at 31 March 2011 were secured by:
- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
 - (b) guarantees by You Tao, Lin Hua Dong, Li Huang Xiu and Qi Xiao Qiang (being senior management of certain subsidiaries), 江西省水利水電開發總公司 and 常州市武進供水總公司;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2011 was HK\$164,158,000 (2010: HK\$101,026,000) (note 16);
 - (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2011 was HK\$64,368,000 (2010: HK\$16,998,000) (note 17);

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34. BORROWINGS – GROUP (Continued)

Notes (Continued):

- (i) The Group's bank loans and other loans at 31 March 2011 were secured by: (Continued)
 - (e) charges over investment properties in which their aggregate carrying amounts as at 31 March 2011 was HK\$282,143,000 (2010: HK\$229,332,000) (note 18);
 - (f) charges over properties under development in which their aggregate carrying amount as at 31 March 2011 was Nil (2010: HK\$63,466,000) (note 25);
 - (g) charges over properties held for sale in which their aggregate carrying amount as at 31 March 2011 was HK\$21,039,000 (2010: Nil) (note 26);
 - (h) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2011 was HK\$178,665,000 (2010: HK\$176,109,000) (note 23);
 - (i) charges over the Group's bank deposits in amount of HK\$20,011,000 as at 31 March 2011 (2010: HK\$83,111,000) (note 31).

(ii) The effective interest rates of the Group's bank loans ranged from 4.78% to 9.18% (2010: 5.2% to 9.8%) per annum at 31 March 2011.

(iii) The effective interest rates of the Group's other loans ranged from 2.82% to 11% (2010: 1% to 10%) per annum at 31 March 2011.

(iv) On 18 December 2007, the Company entered into a term facility agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH (“DEG”) and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”) for a loan facility of up to US\$36 million (the “DEG Loan Agreement”). On 13 August 2008, the Company and its subsidiary, DEG and FMO entered into amended and restated term facility agreement to amend the DEG Loan Agreement (the “Amended DEG Loan Agreement”). In connection with the Amended DEG Loan Agreement, the Company acted as guarantor and issued to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company (the “Warrants”) (note 36).

The facility of US\$36 million was fully utilised (the “DEG and FMO Loan”) and there was repayment of US\$7.2 million during the year ended 31 March 2011. The DEG and FMO Loan bears floating rate of 2.10% per annum above the London Inter-Bank Offer Rates. The subscription monies for the Warrants shall be satisfied by way of set off of any outstanding amount under the Amended DEG Loan Agreement. The loan facility under the Amended DEG Loan Agreement is secured by (i) shares of certain subsidiaries of the Group; (ii) the Group's equity interests in Water Property (note 20); and (iii) a bank account of the Group.

During the year ended 31 March 2011, certain provisions of the Amended DEG Loan Agreement were breached which could cause the DEG and FMO Loan becomes payable on demand. However, on 31 March 2011, the Group has been granted the waiver in respect of the breached provisions. In the opinion of the directors of the Company and after taking into account the waiver, the Group has an unconditional right to defer settlement of the DEG and FMO Loan until 1 April 2012.

(v) The government loans bore interests at effective interest rates ranging from 0.75% to 5.0% (2010: 0.75% to 5.0%) per annum at 31 March 2011.



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35. DUE FROM/(TO) NON-CONTROLLING EQUITY HOLDERS OF SUBSIDIARIES – GROUP AND COMPANY

All the balances were unsecured, interest-free and repayable on demand except for a) the amount due to non-controlling equity holder of subsidiary with carrying amount of HK\$37,371,000 (2010: HK\$35,290,000) which bears interest rate of 6.6% (2010: 6.7%) per annum and repayable on or before 30 June 2015 (2010: repayable on demand) and b) the amount due from non-controlling equity holder of subsidiary with carrying amount of HK\$91,926,000 which bears interest rate of 7.20% to 7.47% per annum and repayable on 31 December 2011.

36. DERIVATIVE FINANCIAL LIABILITIES – GROUP AND COMPANY

	2011 HK\$'000	2010 HK\$'000
Warrants (note)	1	2,754
Derivative component of convertible bonds issued by the Company (note 37)	<u>25,981</u>	<u>252</u>
	<u><u>25,982</u></u>	<u><u>3,006</u></u>

Note: The Company issued the Warrants with the right to subscribe for the ordinary shares of the Company at subscription price of HK\$7 during the subscription period from 18 December 2008 to 18 December 2011 (both days inclusive) up to US\$10.8 million in connection with the Amended DEG Loan Agreement (note 34(iv)).

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

	2011	2010
Stock price	HK\$2.96	HK\$3.41
Expected volatility	30.608%	52.47%
Risk free rate	<u><u>0.246%</u></u>	<u><u>0.618%</u></u>

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37. CONVERTIBLE BONDS – GROUP AND COMPANY

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

	2012 Convertible Bonds (note a) HK\$'000	2015 Convertible Bonds (note b) HK\$'000
Liability component		
Net carrying amounts at 1 April 2009	235,530	–
Interest expenses	21,722	–
Net carrying amounts at 31 March 2010 and at 1 April 2010	257,252	–
Arising from repurchases/redemption	(262,312)	–
Issue of 2015 Convertible Bonds	–	531,632
Interest expenses	5,060	45,009
Interest on convertible bonds paid	–	(7,500)
Net carrying amounts at 31 March 2011	–	569,141
Derivative component-classified as current liabilities		
Net carrying amounts at 1 April 2009	6,339	–
Change in fair value of derivative financial instruments	(6,087)	–
Net carrying amounts at 31 March 2010 and at 1 April 2010	252	–
Arising from repurchases/redemption	(252)	–
Issue of 2015 Convertible Bonds	–	55,338
Change in fair value of derivative financial instruments	–	(29,357)
Net carrying amounts at 31 March 2011	–	25,981



Notes to the Financial Statements

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37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

- (a) Pursuant to announcement dated 18 July 2007 and information memorandum (the “2007 Information Memorandum”) of the Company dated 3 August 2007, the Company issued HK\$650,000,000 zero coupon convertible bonds (the “2012 Convertible Bonds”) at 100% of principal amount to DBS Bank Limited (“DBS”) on 3 August 2007.

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

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

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

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

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

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

Notes to the Financial Statements

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37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

- (b) On 10 March 2010, the Company entered into a subscription agreement with DBS pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK\$600 million (the “2015 Convertible Bonds”) at 2.5% coupon rate per annum with maturity on 15 April 2015. The 2015 Convertible Bonds are convertible at any time on or after 26 May 2010 and up to the close of business on 5 April 2015 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholders, at an initial conversion price of HK\$4 per share (the “2015 Convertible Price”). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 15 April 2011, the average of the volume weighted average price (the “Average Market Price”) of the shares of the Company on each trading day in the period of 20 consecutive trading days before the day immediately prior to 15 April 2011 is less than the 2015 Conversion Price on the 15 April 2011, the 2015 Conversion Price shall be reset to the Average Market Price (the “2015 Conversion Price Reset”) provided that the 2015 Conversion Price shall not be reduced on 15 April 2011 to below HK\$3.15. On 17 September 2010, 16 December 2010 and 15 April 2011, the 2015 Convertible Price was reset to HK\$3.96, HK\$3.93 and HK\$3.10 respectively. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2015 Conversion Bonds at 120.06 per cent of its principal amount on 15 April 2015.

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

On 15 April 2013, the bondholders of the 2015 Convertible Bonds will have the right at such holders’ option, to require the Company to redeem all or some of the 2015 Convertible Bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013.

In the event that the Company’s shares cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder’s option, to require the Company to redeem all or some of such holder’s 2015 Convertible Bonds at their accreted principal amount.

The transaction of the 2015 Convertible Bonds was completed on 15 April 2010.

The Group determined that the above 2012 and 2015 Conversion Price Reset will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company’s shares. In accordance with requirement of HKAS 32, the bond contracts are separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element.

During the year ended 31 March 2011, the Company repurchased the 2012 Convertible Bonds and certain bondholders also exercised their right to require the Company to redeem the 2012 Convertible Bonds. After the completion of repurchases and redemption, the outstanding principal amount of the 2012 Convertible Bonds of HK\$236,900,000 were fully repaid as at 31 March 2011. The Group recognised a loss on redemption of the 2012 Convertible Bonds of HK\$16,460,000 during the year ended 31 March 2011.



Notes to the Financial Statements

For the year ended 31 March 2011

37. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

The fair value of the derivative component of the 2015 Convertible Bonds was calculated using the Binominal Model with the major inputs used in the model as follows:

	31 March 2011	Issue date
Stock price	HK\$2.96	HK\$3.31
Expected volatility	14.025%	18.075%
Risk free rate	1.529%	2.018%

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the derivative component during the year ended 31 March 2011 results in a fair value gain of HK\$29,357,000, which has been included in the “Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)” in the income statement for the year ended 31 March 2011.

Interest expenses are calculated using the effective interest method by apply the effective interest rate 8.65% to the adjusted liability component.

38. DEFERRED GOVERNMENT GRANTS – GROUP

	2011 HK\$'000	2010 HK\$'000
At beginning of the year	51,446	28,309
Additions during the year	3,140	25,232
Amortisation during the year	(2,449)	(2,153)
Exchange realignment	2,466	58
At end of the year	54,603	51,446

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

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39. DEFERRED TAX LIABILITIES – GROUP

Deferred tax liabilities are calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2010: 25%).

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

	Temporary differences on assets recognised under HK(IFRIC)-Int 12 HK\$'000	Fair value adjustments arising from other financial assets HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2009	1,375	17,014	2,759	159,632	180,780
Charged/(credited) to profit or loss (note 11)	563	(8,680)	–	749	(7,368)
Acquisition of a subsidiaries (note 43(c)and(e))	–	–	22,355	–	22,355
Exchange realignment	3	35	5	327	370
At 31 March 2010 and 1 April 2010	1,941	8,369	25,119	160,708	196,137
Charged/(credited) to profit or loss (note 11)	–	(8,564)	–	23,671	15,107
Exchange realignment	92	195	1,195	8,218	9,700
At 31 March 2011	2,033	–	26,314	192,597	220,944

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40. SHARE CAPITAL

	Notes	Number of shares '000	Par value HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each			
At 31 March 2010 and 2011		20,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK\$ 0.01 each			
At 1 April 2009		1,206,872	12,069
Placing and subscription of new shares	(a)	120,000	1,200
Share option exercised	(b)	800	8
At 31 March 2010 and 1 April 2010		1,327,672	13,277
Share option exercised	(c)	58,200	582
At 31 March 2011		1,385,872	13,859

Notes:

- (a) On 26 June 2009, Asset Full Resources Limited ("AFRL"), a company beneficially owned by Mr. Duan Chuan Liang, a director of the Company, entered into a placing agreement with Kim Eng Securities (Hong Kong) Limited for the placement of 120,000,000 ordinary shares of the Company owned by AFRL at a price of HK\$1.90 per share. Pursuant to a conditional subscription agreement on the same date, AFRL subscribed for 120,000,000 new ordinary shares of the Company at a price of HK\$1.90 per share. On 10 July 2009, the subscription was completed and raised a total consideration of approximately HK\$228,000,000 (before expenses). The premium received was credited to the share premium account.
- (b) During the year ended 31 March 2010, the subscription rights attaching to 700,000 and 100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$1.16 and HK\$1.45 per share respectively, resulting in the issue of 800,000 shares of HK\$0.01 each for a total of cash consideration of approximately HK\$957,000 (before expenses) (note 41). The premium received was credited to the share premium account.
- (c) During the year ended 31 March 2011, the subscription rights attaching to 50,000,000, 1,600,000 and 6,600,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$1.02, HK\$1.16 and HK\$1.45 per share respectively, resulting in the issue of 58,200,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$62,426,000 (before expenses) (note 41). The premium received was credited to the share premium account.

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41. 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 non-controlling 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.



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41. SHARE OPTION SCHEME (Continued)

Movement in share options during the year ended 31 March 2011 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 2010	Exercised during the year (note 40)	Lapsed during the year	At 31 March 2011			
Directors							
Mr. Duan Chuan Liang	50,000,000	(50,000,000)	-	-	12 January 2009	Period 6	1.02
Mr. Li Ji Sheng	1,000,000	-	-	1,000,000	10 December 2009	Period 7	2.85
Mr. Chen Guo Ru	500,000	-	-	500,000	10 December 2009	Period 7	2.85
Mr. Zhao Hai Hu	1,000,000	-	-	1,000,000	10 December 2009	Period 7	2.85
Mr. Zhou Wen Zhi	500,000	-	-	500,000	10 December 2009	Period 7	2.85
Mr. Wu Jiesi	6,000,000	(6,000,000)	-	-	29 March 2006	Period 1	1.45
	500,000	-	-	500,000	10 December 2009	Period 7	2.85
	6,500,000	(6,000,000)	-	500,000			
	59,500,000	(56,000,000)	-	3,500,000			
Other employees							
In aggregate	1,600,000	(1,600,000)	-	-	17 March 2006	Period 2	1.16
	900,000	(600,000)	(300,000)	-	29 March 2006	Period 1	1.45
	8,500,000	-	-	8,500,000	10 December 2009	Period 7	2.85
	11,000,000	(2,200,000)	(300,000)	8,500,000			
Suppliers/Advisors							
In aggregate	2,000,000	-	-	2,000,000	10 December 2009	Period 7	2.85
	72,500,000	(58,200,000)	(300,000)	14,000,000			

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41. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options				At 31 March 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2009	Granted during the year	Exercised during the year (note 40)	Lapsed during the year				
Directors								
Mr. Duan Chuan Liang	50,000,000	-	-	(50,000,000)	-	2 April 2007	Period 3	3.60
	50,000,000	-	-	-	50,000,000	12 January 2009	Period 6	1.02
	100,000,000	-	-	(50,000,000)	50,000,000			
Mr. Li Ji Sheng	1,000,000	-	-	(1,000,000)	-	10 August 2007	Period 5	4.58
	-	1,000,000	-	-	1,000,000	10 December 2009	Period 7	2.85
	1,000,000	1,000,000	-	(1,000,000)	1,000,000			
Mr. Chen Guo Ru	500,000	-	-	(500,000)	-	10 August 2007	Period 5	4.58
	-	500,000	-	-	500,000	10 December 2009	Period 7	2.85
	500,000	500,000	-	(500,000)	500,000			
Mr. Zhao Hai Hu	800,000	-	-	(800,000)	-	10 August 2007	Period 5	4.58
	-	1,000,000	-	-	1,000,000	10 December 2009	Period 7	2.85
	800,000	1,000,000	-	(800,000)	1,000,000			
Mr. Zhou Wen Zhi	500,000	-	-	(500,000)	-	10 August 2007	Period 5	4.58
	-	500,000	-	-	500,000	10 December 2009	Period 7	2.85
	500,000	500,000	-	(500,000)	500,000			
Mr. Wu Jiesi	6,000,000	-	-	-	6,000,000	29 March 2006	Period 1	1.45
	1,000,000	-	-	(1,000,000)	-	10 August 2007	Period 5	4.58
	-	500,000	-	-	500,000	10 December 2009	Period 7	2.85
	7,000,000	500,000	-	(1,000,000)	6,500,000			
	109,800,000	3,500,000	-	(53,800,000)	59,500,000			

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41. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options				At 31 March 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2009	Granted during the year	Exercised during the year (note 40)	Lapsed during the year				
Other employees								
In aggregate	2,300,000	-	(700,000)	-	1,600,000	17 March 2006	Period 2	1.16
	1,000,000	-	(100,000)	-	900,000	29 March 2006	Period 1	1.45
	21,900,000	-	-	(21,900,000)	-	30 April 2007	Period 4	4.35
	-	8,500,000	-	-	8,500,000	10 December 2009	Period 7	2.85
	<u>25,200,000</u>	<u>8,500,000</u>	<u>(800,000)</u>	<u>(21,900,000)</u>	<u>11,000,000</u>			
Suppliers/Advisors								
In aggregate	9,500,000	-	-	(9,500,000)	-	30 April 2007	Period 4	4.35
	-	2,000,000	-	-	2,000,000	10 December 2009	Period 7	2.85
	<u>9,500,000</u>	<u>2,000,000</u>	<u>-</u>	<u>(9,500,000)</u>	<u>2,000,000</u>			
	<u>144,500,000</u>	<u>14,000,000</u>	<u>(800,000)</u>	<u>(85,200,000)</u>	<u>72,500,000</u>			

Notes to the Financial Statements

For the year ended 31 March 2011

41. SHARE OPTION SCHEME (Continued)

Notes:

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

- (a) The vesting date of the share options for Period 1 to 3 and 6 to 7 is the date of grant. The share options for Period 4 and 5 are subject to one and half year vesting period.
- (b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (c) The weighted average share price for share options exercised during the year at the date of exercise was HK\$2.85 (2010: HK\$2.56).
- (d) The weighted average exercise prices of share option is set out below:

	2011 HK\$	2010 HK\$
At beginning of the year	1.42	2.75
Granted during the year	–	2.85
Exercised during the year	1.07	1.20
Lapsed during the year	1.45	3.92
At end of the year	2.85	1.42

- (e) The weighted average remaining contractual life of the share options outstanding at 31 March 2011 was approximately 0.69 (2010: 1.67) years.

At 31 March 2011, the Company had 14,000,000 (2010: 72,500,000) share options outstanding under the Scheme, which represented approximately 1.0% (2010: 5.5%) of the Company's shares in issue at that date. All these options were exercisable at 31 March 2011 (2010: All).

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 14,000,000 (2010: 72,500,000) additional ordinary shares of the Company and additional share capital of HK\$140,000 (2010: HK\$725,000) and share premium of HK\$39,760,000 (2010: HK\$102,036,000) (before issue expenses).

Notes to the Financial Statements

For the year ended 31 March 2011

42. RESERVES

(a) Group

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

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

The contributed surplus of the Group represents (i) the difference between the reduction in the issued share capital of HK\$0.0995 for every issued share at a nominal value of HK\$0.10 each of the Company and amount to be set-off against the accumulated losses of the Company pursuant to a capital restructuring on 25 July 2003; and (ii) the share premium reduction during the year ended 31 March 2010.

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

Other reserve represents the difference between the consideration and the carrying amount of the net assets attributable to the additional and reduction of interests in subsidiaries being acquired from and disposed to non-controlling equity holders respectively.

The share options reserve comprises (i) the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited; and (ii) share the share options reserve of associates.

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 2011

42. RESERVES (Continued)

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	(Accumulated losses)/ Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2009	1,135,595	34,519	341	81,354	-	(596)	(50,403)	1,200,810
Placing and subscription of new shares (Note 40)	226,800	-	-	-	-	-	-	226,800
Share issuance expenses	(11,632)	-	-	-	-	-	-	(11,632)
Share premium reduction	(1,350,762)	1,350,762	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	6,030	-	-	-	6,030
Share options exercised (Note 40)	1,404	-	-	(455)	-	-	-	949
Share options lapsed	-	-	-	(63,920)	-	-	63,920	-
Final dividend 2009 (Note 13)	-	(3,600)	-	-	-	-	-	(3,600)
Interim dividend 2010 (Note 13)	-	(26,552)	-	-	-	-	-	(26,552)
Transactions with owners	(1,134,190)	1,320,610	-	(58,345)	-	-	63,920	191,995
Proposed final dividend 2010 (Note 13)	-	(39,980)	-	-	-	-	-	(39,980)
Loss for the year	-	-	-	-	-	-	(42,348)	(42,348)
Other comprehensive income	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	82,709	-	-	82,709
- Currency translation	-	-	-	-	-	(22)	-	(22)
Total comprehensive income for the year	-	-	-	-	82,709	(22)	(42,348)	40,339
Balance at 31 March 2010 and 1 April 2010	1,405	1,315,149	341	23,009	82,709	(618)	(28,831)	1,393,164
Share options exercised (Note 40)	78,682	-	-	(16,838)	-	-	-	61,844
Share options lapsed	-	-	-	(141)	-	-	141	-
Final dividend 2010 (Note 13)	-	(645)	-	-	-	-	-	(645)
Interim dividend 2011 (Note 13)	-	(27,289)	-	-	-	-	-	(27,289)
Transactions with owners	78,682	(27,934)	-	(16,979)	-	-	141	33,910
Proposed final dividend 2011 (Note 13)	-	(41,576)	-	-	-	-	-	(41,576)
Profit for the year	-	-	-	-	-	-	32,230	32,230
Other comprehensive income	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	(41,748)	-	-	(41,748)
- Currency translation	-	-	-	-	-	(569)	-	(569)
Total comprehensive income for the year	-	-	-	-	(41,748)	(569)	32,230	(10,087)
Balance at 31 March 2011	80,087	1,245,639	341	6,030	40,961	(1,187)	3,540	1,375,411

Notes to the Financial Statements

For the year ended 31 March 2011

42. RESERVES (Continued)

(b) Company (Continued)

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

The contributed surplus represented (i) reduction in issued share capital pursuant to a capital restructuring on 25 July 2003; and (ii) the share premium reduction during the year ended 31 March 2010. 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: (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

43. BUSINESS COMBINATIONS

- (a) On 12 May 2010, the Group acquired 90% equity interest in 永川佳和 at a consideration of RMB9,000,000 (approximately HK\$10,227,000). 永川佳和 is principally engaged in water supply. The acquisition was made as part of the Group's strategy to expand its market share of water supply business in the PRC. The Group has elected to measure the non-controlling interest in 永川佳和 at the non-controlling interests' proportionate share of 永川佳和's identifiable net assets.

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

	HK\$'000
Purchase consideration	–
Deposit paid (note 24 (ii)(a))	10,227
Total purchase consideration	10,227
Fair value of net assets acquired	(5,492)
Goodwill	4,735

The goodwill of HK\$4,735,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(a) (Continued)

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	5,542	5,542
Inventories	9	9
Trade receivables	497	497
Prepayments, deposit and other receivables	1,520	1,520
Bank and cash balances	2,188	2,188
Trade payables	(9)	(9)
Accrued liabilities, deposits received and other payables	(3,645)	(3,645)
Non-controlling interests	(610)	(610)
	<u>5,492</u>	<u>5,492</u>
Net assets attributed to the Group acquired	<u>5,492</u>	<u>5,492</u>
Bank and cash balances acquired		2,188
Cash consideration		(10,227)
		<u>(8,039)</u>
Net outflow		<u>(8,039)</u>

None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

Since its acquisition, 永川佳和 contributed revenue of HK\$3,218,000 and net profit of HK\$272,000 to the Group for the period from 12 May 2010 to 31 March 2011.

Had the combination taken place on 1 April 2010, the revenue and the net profit of the Group for the year ended 31 March 2011 would have been HK\$1,478,457,000 and HK\$600,535,000 respectively. These pro forma information are 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 2010, nor are they intended to be a projection of future results.

The acquisition-related costs have been expensed and are included in administrative expenses.

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

- (b) On 29 October 2010, the Group acquired 55% assets and the water supply business in 宜豐縣自來水公司(“宜豐自來水”) at a consideration of RMB20,287,000 (approximately HK\$23,980,000). The Group also entered into an agreement with 宜豐縣國有資產管理局(“宜豐管理局”), the equity holder of 宜豐自來水, that the Group and 宜豐管理局 shall establish a new company 宜豐銀龍, to run the relevant business. The Company shall contribute 55% registered capital of 宜豐銀龍 by way of the relevant assets acquired and 宜豐管理局 shall contribute the remaining 45% interest of 宜豐銀龍 by way of 45% assets and the water supply business in 宜豐自來水. The above transactions are completed on 1 December 2010.

The acquisition was made as part of the Group’s strategy to expand its market share of water supply business in the PRC. The Group has elected to measure the non-controlling interest in 宜豐銀龍 at the non-controlling interests’ proportionate share of 宜豐銀龍’s identifiable net assets.

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

	HK\$’000
Total purchase consideration	23,980
Fair value of net assets acquired	(23,980)
Goodwill	–

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

	Fair value HK\$’000	Carrying amount HK\$’000
Property, plant and equipment	32,844	27,591
Prepaid land lease payments	3,260	3,260
Inventories	659	646
Trade receivables	6	6
Prepayments, deposit and other receivables	4,947	4,947
Bank and cash balances	1,883	1,883
Non-controlling interests	(19,619)	(17,250)
Net assets attributed to the Group acquired	23,980	21,083
Bank and cash balances acquired		1,883
Cash consideration		(23,980)
Net outflow		(22,097)

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(b) (Continued)

None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

Since its acquisition, 宜豐銀龍 contributed revenue of HK\$4,858,000 and net profit HK\$1,388,000 to the Group for the period from 1 December 2010 to 31 March 2011.

Had the combination taken place on 1 April 2010, the revenue and the net profit of the Group for the year ended 31 March 2011 would have been HK\$1,478,163,000 and HK\$600,492,000 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 2010, nor are they intended to be a projection of future results.

The acquisition-related costs have been expensed and are included in administrative expenses.

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(c) (Continued)

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	11,436	12,681
Prepaid land lease payments	68,977	26,819
Inventories	913	913
Prepayments, deposits and other receivables	1,694	1,694
Bank and cash balances	540	540
Trade payables	(108)	(108)
Accrued liabilities, deposits received and other payables	(505)	(505)
Deferred tax liabilities	(10,228)	–
	<u>72,719</u>	<u>42,034</u>
Net assets attributed to the Group acquired		
		<u>42,034</u>
Bank and cash balances in subsidiaries acquired		540
Cash consideration		(18,800)
		<u>(18,260)</u>
Net outflow		<u>(18,260)</u>

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(d) (Continued)

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(e) (Continued)

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(f) (Continued)

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	940,374	940,374
Prepaid land lease payments	3,381	3,381
Deposits and prepayments	20,453	20,453
Trade receivables	8,355	8,355
Due from a non-controlling interest	13,489	13,489
Bank and cash balances	29,996	29,996
Trade payables	(22,681)	(22,681)
Accrued liabilities, deposits received and other payables	(136,134)	(136,134)
Due to a non-controlling interest	(82,951)	(82,951)
Borrowings	(474,030)	(474,030)
Provision for tax	(4,587)	(4,587)
Non-controlling interests	(192,085)	(192,085)
Net assets attributed to the Group acquired	<u>103,580</u>	<u>103,580</u>
Bank and cash balances in subsidiaries acquired		29,996
Cash consideration		–
Net inflow		<u>29,996</u>

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

Notes to the Financial Statements

For the year ended 31 March 2011

43. BUSINESS COMBINATIONS (Continued)

(g) (Continued)

Details of the net assets acquired are as follows:

	Net assets acquired HK\$'000
Prepayments, deposits and other receivables	899
Due from the Group	13,970
Bank and cash balances	11,433
Non-controlling interests	(12,888)
	<hr/>
Net assets attributed to the Group acquired	13,414
	<hr/>
Bank and cash balances in subsidiaries acquired	11,433
Cash consideration	–
	<hr/>
Net inflow	11,433
	<hr/>

44. DEEMED/PARTIAL DISPOSAL OF SUBSIDIARIES

- (a) Upon the transfer of the 48% equity interests in 江河旋龍 to the non-controlling equity holders of subsidiaries, the Group's effective interest in subsidiaries of 江河旋龍 was diluted from 100% to 52% on 20 December 2010. During the year ended 31 March 2011 as a result of such dilution, a partial disposal gain of HK\$56,000 was credited other reserves.
- (b) Upon the capital injection in 新城開發 by the non-controlling equity holders of subsidiaries, the Group's effective interest in subsidiaries of 新城開發 was diluted from 58% to 54.48% on 15 November 2010. During the year ended 31 March 2011 as a result of such dilution, a deemed disposal loss of HK\$7,255,000 was charged to other reserves.
- (c) Upon the capital injection in 新余市銀龍機電科技有限公司 (“銀龍機電”) by the non-controlling equity holders of subsidiaries, the Group's effective interest in subsidiaries of 銀龍機電 was diluted from 31.2% to 8.3% on 15 March 2011. During the year ended 31 March 2011 as a result of such dilution and loss control of the board, a deemed disposal gain HK\$133,000 was credited to profit or loss and the equity interests of 銀龍機電 became available-for-sale financial assets. In the opinion of the directors, the Group has the power to cast the majority of votes of meetings of the board of directors in respect of the financial and operating policies of 銀龍機電 before 15 March 2011.
- (d) Upon the new incorporation of 上海銀龍, an indirect subsidiary of the Company, the Group's effective interest in subsidiaries of 上海銀龍, which previously held by 上海倍臣, was diluted from 100% to 95% on 27 October 2009. During the year ended 31 March 2010 as a result of such dilution, a deemed disposal loss of HK\$13,969,000 was charged to other reserves.

Notes to the Financial Statements

For the year ended 31 March 2011

44. DEEMED/PARTIAL DISPOSAL OF SUBSIDIARIES (Continued)

- (e) Upon the transfer of the 95% equity interests in 分宜中水 and 萬年中水 to China Kolon, which previously was a jointly controlled entity and became a subsidiary of the Company during the year, the Group's effective interest in 分宜中水 and 萬年中水 was diluted from 100% to 53.45% subsequent to 1 April 2009. During the year ended 31 March 2010 as a result of such dilution, a deemed disposal gain of HK\$323,000 was credited to other reserves.
- (f) Upon the partial disposal of 10% equity interests in 長沙 (中國水務), an indirect subsidiary of the Company, on 12 May 2009, a partial disposal loss of HK\$4,200,000 was resulted and charged to other reserves during the year ended 31 March 2010.

45. ASSETS CLASSIFIED AS HELD FOR SALE

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

- (a) On 20 May 2010, the Company entered into conditional agreement with China Water Group (HK) Limited, a direct wholly owned subsidiary of the Company, and AES China Hydropower Investment Co. Pre. Ltd ("AES") (i) to sell the entire issued share capital in China Hydropower Development Limited ("China Hydropower"), an indirect wholly owned subsidiary of the Company which held 35% equity interest in 江河農電, and the shareholder's loan due from China Hydropower to the Company in the sum of approximately HK197.94 million to AES at the consideration of RMB238 million in cash, and (ii) to procure 河南銀龍, an indirect wholly owned subsidiary of the Company, to sell 15% of the equity interest in 江河農電 at the consideration of RMB102 million. Further details of which are disclosed in the Company's announcement dated 23 May 2010.

During the year ended 31 March 2011, the disposal of 35% equity interest in 江河農電 was completed and the Group recognised a gain on disposal of assets classified as held for sale of HK\$73,997,000. As at 31 March 2011, the assets classified as held for sale represented the carrying amount of HK\$ 84,158,000 of 15% equity interest in 江河農電. The transaction was completed in April 2011.

- (b) On 30 June 2010, the Company entered into an agreement with Jiangyin Chang Jiang Steel Pipes Company Limited to sell 13.228% equity interest in 水務投資, at the consideration of RMB236.4 million in cash. During the year ended 31 March 2011, the disposal of 13.228% equity interest in 水務投資 was completed. The disposal of the remaining 3.857% equity interest in 水務投資 at a consideration of HK\$41,255,000 was also completed in June 2010. The Group recognised a gain in disposal of assets classified as held for sale of HK\$127,192,000.



Notes to the Financial Statements

For the year ended 31 March 2011

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Disposal of subsidiaries

	2011 HK\$'000	2010 HK\$'000
Net assets disposed of:		
Goodwill	155	–
Property, plant and equipment	309	–
Bank and cash balances	833	–
Trade receivables	586	–
Inventories	7,256	–
Prepayments, deposits and other receivables	9,657	379
Trade payables	(2,957)	–
Provision for tax	(736)	–
Accrued liabilities and other payables	(6,339)	–
Non-controlling interests	(5,722)	(367)
	<u>3,042</u>	<u>12</u>
Release of exchange fluctuation reserve upon disposal	(458)	(29)
Release of statutory reserves upon disposal	(583)	–
Gain on disposal of subsidiaries	391	17
	<u>2,392</u>	<u>–</u>
Total consideration	<u>2,392</u>	<u>–</u>
Satisfied by:		
Cash	–	–
Reclassify to available-for-sales financial assets (note 44(c))	2,392	–
	<u>2,392</u>	<u>–</u>
Total consideration	<u>2,392</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 March 2011

46. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(a) Disposal of subsidiaries (Continued)

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

	2011 HK\$'000	2010 HK\$'000
Cash consideration	–	–
Bank and cash balances disposed of	(833)	–
Net outflow	(833)	–

The disposed subsidiaries during the year ended 31 March 2011 contributed revenue of HK\$8,518,000 (2010: HK\$592,000) and net profit of approximately HK\$1,423,000 (2010: HK\$218,000) respectively to the Group for the period from 1 April 2010 to 15 March 2011 (2010: from 1 April 2009 to 30 June 2009) (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 2011, no equity-settled share options expenses (2010: HK\$6,030,000) were charged to profit or loss.
- (ii) During the year ended 31 March 2011, registered capitals of certain subsidiaries of the Group in the PRC were paid up by transfer of the property, plant and equipment of HK\$14,780,000 (2010: HK\$33,531,000), land use right of HK\$1,467,000 (2010: HK\$48,305,000) and certain current assets of HK\$3,372,000 (2010: HK\$3,651,000) and were settled through the current account with the non-controlling equity holder of Nil (2010: HK\$1,843,000).
- (iii) During the year ended 31 March 2011, trade receivables of HK\$267,857,000 were settled by transfer the loan balance of RMB225 million (equivalent to HK\$267,857,000) to 仙女湖區城市建設投資開發有限公司.

Notes to the Financial Statements

For the year ended 31 March 2011

47. COMMITMENTS

At 31 March 2011, the Group/Company had the following outstanding commitments:

(i) Capital commitments

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

	2011 HK\$'000	2010 HK\$'000
Contracted, but not provided for		
– Construction in progress	31,677	20,351
– Plant and machinery	1,942	2,417
– Leasehold improvements	–	195
– Water pipelines	78,909	93,522
	<u>112,528</u>	<u>116,485</u>
Authorised, but not contracted for		
– Water pipelines	–	51,570
	<u>112,528</u>	<u>168,055</u>

(ii) Operating lease arrangement

As lessee

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

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

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Within one year	14,512	15,668	–	571
In the second to fifth years, inclusive	36,441	45,107	–	276
After five years	69,802	42,574	–	–
	<u>120,755</u>	<u>103,349</u>	<u>–</u>	<u>847</u>

Notes to the Financial Statements

For the year ended 31 March 2011

47. COMMITMENTS (Continued)

(ii) Operating lease arrangement (Continued)

As lessor

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

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

	2011 HK\$'000	2010 HK\$'000
Within one year	839	1,811
In the second to fifth years, inclusive	304	789
	<u>1,143</u>	<u>2,600</u>

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

- (iii) At 31 March 2011, the Group had no other commitments (2010: HK\$52,108,000) in respect of its business development and construction projects (including the BOT arrangements) in the PRC.
- (iv) At 31 March 2011, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$16,158,000 (2010: HK\$23,053,000).
- (v) At 31 March 2011, the Group had commitment, which is contracted but not provided for to make acquisition of equity securities of approximately HK\$337,058,000 (2010: HK\$41,648,000). The relevant deposits of approximately HK\$166,309,000 were paid at 31 March 2011 (2010: HK\$32,954,000) (note24(i)(a),(b) and (d)).

Notes to the Financial Statements

For the year ended 31 March 2011

48. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

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

(a) Credit risk

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

The maximum credit risk exposure of the financial assets is summarised in note (g) below.

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

The Group has significant concentration of credit risk in relation to its receivables from customers amounting to approximately HK\$117,016,000 (2010: HK\$390,956,000) arising from its other infrastructure construction operation in the PRC.

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

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

(b) Foreign currency risk

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

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

(c) Interest rate risk

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

The Group's exposure to interest rate risk mainly arises on unlisted debt securities investment (note 21), bank deposits (note 31) and borrowings which bore floating interests (note 34). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

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

Sensitivity analysis

If the interest rates had been increased by 100 basis points at the beginning of the year and all other variables were held constant, the Group's profit after income tax and retained earnings would decrease by approximately HK\$4,275,000 (2010: HK\$5,967,000) and the Company's profit after income tax and retain earnings would increase by approximately HK\$3,530,000 (2010: Company's loss after income tax and accumulated losses would decrease by HK\$1,425,000). The assumed changes have no impact on the Group's and the Company's other components of equity.

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

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

The sensitivity analysis included in the financial statements for the year ended 31 March 2010 has been prepared on the same basis.

(d) Price risk

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

The financial assets at fair value through profit or loss and derivative financial instruments expose the Group to price risk.

The Group's investments in listed equity securities are primarily listed on the stock exchanges of Hong Kong and the PRC. The underlying shares of the derivative financial instruments are listed on the Stock Exchange.



Notes to the Financial Statements

For the year ended 31 March 2011

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

(d) Price risk (Continued)

Sensitivity analysis

At 31 March 2011, it is estimated that a general increase of 10% of the price of the financial assets at fair value through profit or loss and the value of derivative financial instruments, with all other variables held constant, would increase the Group's profit after income tax and retained earnings by approximately HK\$2,547,000 (2010: HK\$19,373,000) and no change of other component of equity (2010: increase of HK\$31,755,000).

At 31 March 2011, it is estimated that a general increase of 10% of the price of the available-for-sale financial assets at fair value and financial assets at fair value through profit or loss and the value of derivative financial instruments, with all other variables held constant, would decrease the Company's profit after income tax and retained earnings by approximately HK\$2,560,000 (2010: Company's loss after tax and accumulated losses would increase by approximately HK\$195,000) and increase of other component of equity by HK\$8,428,000 (2010: HK\$12,603,000).

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

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

The sensitivity analysis included in the financial statements for the year ended 31 March 2010 has been prepared on the same basis.

(e) Liquidity risk

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

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

(e) Liquidity risk (Continued)

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

Group

	On demand HK\$'000	Less than three months HK\$'000	Three to twelve months HK\$'000	Over one year HK\$'000	Total HK\$'000
At 31 March 2011					
Trade payables	283,652	52,057	5,062	5,936	346,707
Other payables	496,920	4,725	254	–	501,899
Accrued liabilities	–	29,347	10	–	29,357
Borrowings	93,298	29,131	521,587	1,454,668	2,098,684
Due to non-controlling equity holders of subsidiaries	68,897	–	–	37,371	106,268
Convertible bonds	–	7,500	7,500	772,860	787,860
	<u>942,767</u>	<u>122,760</u>	<u>534,413</u>	<u>2,270,835</u>	<u>3,870,775</u>
At 31 March 2010					
Trade payables	299,567	23,635	3,581	65	326,848
Other payables	415,266	4,368	–	–	419,634
Accrued liabilities	–	42,800	366	–	43,166
Borrowings	155,650	15,031	528,609	1,746,033	2,445,323
Due to non-controlling equity holders of subsidiaries	118,175	–	–	–	118,175
Convertible bonds	–	–	280,817	–	280,817
	<u>988,658</u>	<u>85,834</u>	<u>813,373</u>	<u>1,746,098</u>	<u>3,633,963</u>

Notes to the Financial Statements

For the year ended 31 March 2011

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

(e) Liquidity risk (Continued)

Company

	On demand HK\$'000	Less than three months HK\$'000	Three to twelve months HK\$'000	Over one year HK\$'000	Total HK\$'000
At 31 March 2011					
Other payables	16,245	1,594	–	–	17,839
Accrued liabilities	–	6,132	–	–	6,132
Due to subsidiaries	303,915	–	–	–	303,915
Convertible bonds	–	7,500	7,500	772,860	787,860
	<u>320,160</u>	<u>15,226</u>	<u>7,500</u>	<u>772,860</u>	<u>1,115,746</u>
At 31 March 2010					
Other payables	3,022	1,760	–	–	4,782
Accrued liabilities	–	16,158	–	–	16,158
Due to subsidiaries	263,034	–	–	–	263,034
Convertible bonds	–	–	280,817	–	280,817
	<u>266,056</u>	<u>17,918</u>	<u>280,817</u>	<u>–</u>	<u>564,791</u>

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Notes to the Financial Statements

For the year ended 31 March 2011

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

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

At 31 March 2011, the financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Group				
Assets				
Available-for-sale financial assets	–	63,475	–	63,475
Financial assets at fair value through profit or loss	4,062	–	–	4,062
Derivative financial assets	–	47,390	–	47,390
	<u>4,062</u>	<u>110,865</u>	<u>–</u>	<u>114,927</u>
Liabilities				
Derivative financial liabilities	–	(25,982)	–	(25,982)
Net fair values	<u>4,062</u>	<u>84,883</u>	<u>–</u>	<u>88,945</u>
Company				
Assets				
Available-for-sale financial assets	84,285	–	–	84,285
Financial assets at fair value through profit or loss	380	–	–	380
	<u>84,665</u>	<u>–</u>	<u>–</u>	<u>84,665</u>
Liabilities				
Derivative financial liabilities	–	(25,982)	–	(25,982)
Net fair values	<u>84,665</u>	<u>(25,982)</u>	<u>–</u>	<u>58,683</u>

Notes to the Financial Statements

For the year ended 31 March 2011

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

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

(g) Categories of financial assets and liabilities

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

Financial assets

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loan and receivables				
– Trade receivables	359,147	539,000	–	–
– Amounts due from grantors for contract work	103,910	94,588	–	–
– Loan and other receivables	399,710	190,283	5,400	11,133
– Due from subsidiaries	–	–	874,804	595,161
– Due from non-controlling equity holders of subsidiaries	198,102	131,566	–	2,140
	<u>1,060,869</u>	<u>955,437</u>	<u>880,204</u>	<u>608,434</u>
– Bank and cash balances (including pledged deposits)	874,508	605,789	353,089	206,274
	<u>1,935,377</u>	<u>1,561,226</u>	<u>1,233,293</u>	<u>814,708</u>
At fair value				
– Available-for-sale financial assets	63,475	424,287	84,285	126,033
– Financial assets at fair value through profit or loss	4,062	53,841	380	1,053
– Derivative financial assets	47,390	142,897	–	–
	<u>114,927</u>	<u>621,025</u>	<u>84,665</u>	<u>127,086</u>
At cost				
– Available-for-sale financial assets	59,715	31,225	40,032	9,091
	<u>2,110,019</u>	<u>2,213,476</u>	<u>1,357,990</u>	<u>950,885</u>

Notes to the Financial Statements

For the year ended 31 March 2011

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

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

Financial liabilities

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
At amortised cost				
– Trade payables	346,707	326,848	–	–
– Other payables	501,899	419,634	17,839	4,782
– Accrued liabilities	29,357	43,166	6,132	16,158
– Borrowings	1,834,531	2,172,775	–	–
– Due to subsidiaries	–	–	303,915	263,034
– Due to non-controlling equity holders of subsidiaries	106,268	118,175	–	–
– Convertible bonds	569,141	257,252	569,141	257,252
	3,387,903	3,337,850	897,027	541,226
At fair value				
– Derivative financial liabilities	25,982	3,006	25,982	3,006
	3,413,885	3,340,856	923,009	544,232

49. CAPITAL MANAGEMENT

The Group's capital management objectives include:

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

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

Notes to the Financial Statements

For the year ended 31 March 2011

49. CAPITAL MANAGEMENT (Continued)

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

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

	2011 HK\$'000	2010 HK\$'000
Capital		
Total equity	4,333,329	3,826,778
Overall financing		
Borrowings	1,834,531	2,172,775
Convertible bonds	569,141	257,252
Derivative financial liabilities	25,982	3,006
Due to non-controlling equity holders of subsidiaries	106,268	118,175
	2,535,922	2,551,208
Capital-to-overall financing ratio	1.71 times	1.50 times

50. 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) Compensation of key management personnel of the Group:

	2011 HK\$'000	2010 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	42,207	35,279
– Share-based payments	–	3,661
– Retirement scheme contribution	36	36
	42,243	38,976



Notes to the Financial Statements

For the year ended 31 March 2011

50. RELATED PARTY TRANSACTIONS (Continued)

- (b) During the year ended 31 March 2011, the Group entered into a sale and purchase agreement with 北京義利食品公司, a non-controlling equity holder of a subsidiary of the Group, to acquire the remaining 33% of equity interest in 北京中水 at consideration of RMB262,000,000 (approximately HK\$311,905,000). A deposit of RMB 126,200,000 (approximately HK\$150,238,000) paid by the Group in relation to the acquisition was included in “deposits for acquisition of equity securities” in note 24(i)(a).
- (c) During the year ended 31 March 2011, the Group acquired additional 49% equity interest in China Kolon from the non-controlling equity holder at a consideration of HK\$14,343,000. The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the non-controlling equity holder has been dealt with in the other reserve.
- (d) During the year ended 31 March 2011, the Group acquired additional 34% equity interest in China Fortune from the non-controlling equity holder at a consideration of HK\$34,000. The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the non-controlling equity holder has been dealt with in the other reserve.
- (e) During the year ended 31 March 2011, the Group acquired additional 49% equity interest in 新余格林 from the non-controlling equity holder at a consideration of RMB5,550,000 (approximately HK\$6,607,000). The difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the non-controlling equity holder has been dealt with in the other reserve.
- (f) During the year ended 31 March 2010, the Group entered into a sale and purchase agreement with 惠州市投資管理公司, a non-controlling equity holder of a subsidiary of the Group, to acquire the remaining 25.62% equity interest in 大亞灣溢源 at consideration of RMB65,650,000. A deposit of approximately RMB29,000,000 paid by the Group in relation to the acquisition was included in “deposits for acquisition of equity securities” in note 24(ii)(b).

Notes to the Financial Statements

For the year ended 31 March 2011

51. POST REPORTING DATE EVENTS

In addition to those disclosed elsewhere in these financial statements, the Group had the following material events after 31 March 2011:

- (a) In April 2011, the Group completed the acquisition of 100% equity interest in 順發建築 which is principally engaged in manufacture and sale of concrete products. Because the acquisition of 順發建築 was completed close to the date of approval of these financial statements, it is not practicable to disclose further details in relation to the acquisition as at the date of the approval of these financial statements.
- (b) On 19 May 2011, the Company and ORIX Corporation ("ORIX") entered into a subscription agreement pursuant to which the ORIX agreed to subscribe and the Company agreed to issue a total of 235,598,277 new shares (the "New Shares") at the price of HK\$3.4 per share. The New Shares represent approximately 17% of the issued share capital of the Company as at the reporting date and approximately 14.53% of the total issued share capital of the Company as enlarged by the Subscription. The proceeds of the Subscription of approximately HK\$801 million (before expenses) will be used for water related investments and for general working capital of the Group.

52. PRELIMINARY AGREEMENTS

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



Particulars of Properties for Investment

For the year ended 31 March 2011

Location	Type	Lot number	Lease term
中國江西省新余市體育中心西側	Commercial/ residential	1-3-708	40 years/ 70 years
中國江西省新余市新欣大道以東，高新大道以北	Commercial	E13-2	40 years
中國江西省新余市清宜公路以南界水河東側	Commercial/ residential	106	40 years/ 70 years
中國江西省新余市清宜公路以南天仙路東側	Commercial/ residential	107	40 years/ 70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	202	40 years/ 70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	203	40 years/ 70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	204	40 years/ 70 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	205	50 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	206	50 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	207	50 years
中國江西省新余市仙女湖體育公園環湖路南側	Commercial	220-0	40 years
中國江西省新余市仙女湖體育公園環湖路南側	Commercial	221	40 years
中國江西省新余市仙女湖體育公園環湖路南側	Commercial	222	40 years
中國江西省新余市科環東路南側	Residential	1-14-7	70 years

Financial Summary

RESULTS

	2011 HK\$'000	Year ended 31 March			
		2010 HK\$'000	2009 HK\$'000	2008 HK\$'000 (Restated)	2007 HK\$'000 (Restated)
Revenue					
Continuing operations	1,478,163	1,398,168	1,033,199	765,538	134,735
Discontinued operation	–	–	–	6,960	5,609
	1,478,163	1,398,168	1,033,199	772,498	140,344
Profit before income tax					
Continuing operations	725,218	520,134	326,617	310,484	129,790
Discontinued operation	–	–	–	344,631	21,888
	725,218	520,134	326,617	655,115	151,678
Income tax expense					
Continuing operations	(124,726)	(75,431)	(97,943)	(135,111)	(44,512)
Discontinued operation	–	–	–	–	(4,222)
	(124,726)	(75,431)	(97,943)	(135,111)	(48,734)
Profit for the year					
Continuing operations	600,492	444,703	228,674	175,373	85,278
Discontinued operation	–	–	–	344,631	17,666
	600,492	444,703	228,674	520,004	102,944
Attributable to:					
Owners of the Company	421,905	301,571	115,037	427,242	63,379
Non-controlling interests	178,587	143,132	113,637	92,762	39,565
	600,492	444,703	228,674	520,004	102,944

ASSETS AND LIABILITIES

	2011 HK\$'000	At 31 March			
		2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Total assets	8,361,436	7,776,110	5,545,417	4,426,432	2,259,290
Total liabilities	(4,028,107)	(3,949,332)	(2,857,580)	(2,200,088)	(974,993)
Non-controlling interests	(1,468,697)	(1,277,124)	(811,677)	(468,760)	(240,098)
Equity attributable to owners of the Company	2,864,632	2,549,654	1,876,160	1,757,584	1,044,199

