



ANNUAL REPORT 2014



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

* For identification purposes only

Contents

	<i>Pages</i>
Corporate Information	2
Chairman's Statement	3
Directors' and Senior Management Biographical Details	8
Corporate Governance Report	10
Directors' Report	17
Independent Auditor's Report	23
Consolidated	
Income Statement	25
Statement of Comprehensive Income	26
Statement of Financial Position	27
Statement of Changes in Equity	29
Statement of Cash Flows	31
Company	
Statement of Financial Position	34
Notes to the Financial Statements	35
Particulars of Properties for Investment	152
Particulars of Properties under Development	153
Financial Summary	154

Corporate Information

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Ms. Ding Bin (appointed on 28 June 2013)

Non-executive

Mr. Chen Guo Ru
Mr. Zhao Hai Hu
Mr. Zhou Wen Zhi
Mr. Makoto Inoue

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

NOMINATION COMMITTEE

Mr. Duan Chuan Liang (*Chairman of committee*)
Mr. Chau Kam Wing
Ms. Huang Shao Yun
Ms. Liu Dong

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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

BDO Limited

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
Agricultural Development Bank of China
Asian Development Bank

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 2014.

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 2014, the Group recorded a turnover of HK\$2,746.6 million, representing an increase of 22.0% from HK\$2,250.7 million in last year. The Group recorded a gross profit of HK\$1,147.3 million representing an increase of 18.3% from HK\$969.8 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\$281.3 million, representing a slight decrease of 1.6% from HK\$285.8 million in last year. The basic earnings per share increased by 0.3% to HK19.77 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 (2013: HK5 cents per share). For the year under review, the Company also repurchased a total of 38,120,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$111,262,000, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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 6 million people in over 26 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. 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\$2,250.7 million for the year ended 31 March 2013 to HK\$2,746.6 million for the year ended 31 March 2014, representing an increase of 22.0%. The Group maintained a stable growth in its "Water" segment. For the year under review, the total revenue attributable to the "Water" segment amounted to HK\$1,957.7 million, represented an increase of 9.7% when compared with the total "Water" segment revenue of HK\$1,784.9 million in the corresponding year. This organic growth of "Water" segment revenue is mainly attributable 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, Hainan, Jiangsu, Jiangxi, Hubei, Guangdong, Chongqing and Shanxi.

For the year under review, the revenue from city water supply operation and construction amounted to HK\$1,875.4 million (2013: HK\$1,733.9 million), representing an increase of 8.2% 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\$730.6 million (2013: HK\$615.0 million), representing a stable increase of 18.8% as compared with the last corresponding year.

(ii) Sewage Treatment Business Analysis

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

For the year under review, the revenue from sewage treatment operation and construction business amounted to HK\$82.4 million (2013: HK\$50.9 million), representing an increase of 61.9% as compared with the last corresponding year. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$31.5 million (2013: HK\$21.2 million), representing a substantial increase of 48.6% 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, Hubei and Hunan provinces of China.

For the year under review, the revenue from the property business segment amounted to HK\$385.3 million (2013: HK\$223.6 million). The total property business segment profit amounted to HK\$90.3 million (2013: HK\$196.7 million), representing a substantial decrease of 54.1% as compared with the last corresponding year, which was mainly due to the substantial decrease in the fair value gain on investment properties by HK\$101.2 million (fair value gain on investment properties in 2013: HK\$149.9 million).

Chairman's Statement

(iv) Concrete Business Analysis

Concrete projects of the Group are mainly located in Jiangxi and Hunan provinces of China.

For the year under review, the revenue from concrete business segment amounted to HK\$356.6 million (2013: HK\$159.5 million), representing a significant increase of 123.6% as compared with the last corresponding year. The total concrete business segment profit amounted to HK\$44.7 million (2013: HK\$17.1 million), representing a significant increase of 161.4% as compared with the last corresponding year.

For the year under review, the Group also recorded a gain on disposal of subsidiaries amounted to HK\$37.0 million, which represented the gain on disposal of 30% equity interest in 新余水務置業有限責任公司 and its subsidiary. For the corresponding year under review, the Group recorded a gain on disposal of assets and liabilities classified as held for sale amounted to HK\$41.3 million, which represented the gain on disposal of 50% equity interest in 廣東新會水務有限公司. 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 increase in the Group's share of results of associates was also attributable to the increase in the results of China Water Property Group Limited ("Water Property"), whose ordinary shares are listed on the mainboard of The Stock Exchange of Hong Kong Limited (stock code: 2349).

PROSPECTS

Looking ahead, the Group sees a sign of steady pace of recovery in the global economies. Despite the commencement of tapering of quantitative easing in the United States, there were no signs of persistent interest rate surge and large scale of fund outflow from emerging markets as previously worried by the market. The recent unconventional measure of negative interest rate imposed by the European Central Bank gives a signal of monetary loosening in the near future. All these are favorable signs of low interest rate environment. On the other hand, the Group sees a consistent growth of China's economy over 7% and accordingly, the Group has strong confidence in the economic growth of China. Urbanisation and green economy are the key elements in the achievement of "Building a Beautiful China". To cope with the sustainable urbanisation in China, solving the issues of water supply and sewage treatment are among the top priorities for the Central Government.

On 27 May 2014, the Group has entered into a facility arrangement of up to a further aggregate loan amount of US\$200 million with the Asian Development Bank. The Group considers that it will further strengthen the Group's capability to expand and improve water treatment and distribution services in China. The development of integrated urban-rural water supply system will also expand our coverage and therefore bringing additional revenue, income and other benefits. Besides, the Group will continue to seek and assess different opportunities of acquisitions and cooperations to enlarge our capacities and scale and business mix. The framework cooperation agreement with Hegang Government in March 2014 in respect of the water project represents a new strategic location of the Group in Heilongjiang province. The Group will also closely monitor and assess the existing and potential loans and assets portfolio and strive to capture opportunities to create value for the shareholders.

MAJOR ACQUISITIONS AND DISPOSALS

Details of the Group's acquisitions and disposals during the years ended 31 March 2014 and 2013 are set out in notes 42 and 43 to the financial statements respectively.

Chairman's Statement

CONVERTIBLE BONDS

As of 31 March 2013, the Company received redemption notice to redeem the convertible bonds of principal amount of HK\$286,700,000 at the total consideration of HK\$319,154,000. Such redemption was completed on 15 April 2013. Immediately after completion of the above redemption, the outstanding principal amount of the convertible bonds was HK\$187,800,000. In addition, during the year ended 31 March 2014, the Company repurchased convertible bonds with an aggregate principal amount of HK\$26,000,000 at the total consideration of HK\$29,758,000. After completion of the above repurchase, the outstanding principal amount of the convertible bonds is HK\$161,800,000. The Group recognised a loss on repurchase/redemption of the convertible bonds of HK\$1,441,000 during the year ended 31 March 2014.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2014, the Group has total cash and deposits balances of approximately HK\$1,769.3 million (2013: HK\$967.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 57.8% (2013: 55.4%) as at 31 March 2014. The current ratio is 1.24 times (2013: 1.04 times) as at 31 March 2014. 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 2014, the Group has employed approximately 5,900 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 merit, qualifications, competence, 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 and borrowings 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

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 31 March 2014 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over property, plant and equipment in which their aggregate carrying amounts as at 31 March 2014 was HK\$296,910,000 (2013: HK\$118,029,000);
- (c) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2014 was HK\$163,881,000 (2013: HK\$92,559,000);
- (d) charges over investment properties in which their aggregate carrying amounts as at 31 March 2014 was HK\$52,797,000 (2013: Nil);

Chairman's Statement

- (e) charges over other intangible assets in which their aggregate carrying amounts as at 31 March 2014 was HK\$181,999,000 (2013: HK\$187,756,000);
- (f) charges over the properties under development in which their aggregate carrying amounts as at 31 March 2014 was HK\$59,335,000 (2013: Nil);
- (g) charges over the Group's bank deposits in amount of HK\$179,200,000 as at 31 March 2014 (2013: HK\$49,685,000); and
- (h) charges over (1) shares of certain subsidiaries of the Group; (2) the Group's equity interests in Water Property; and (3) a bank account of the Group.

CONTINGENT LIABILITIES

As at 31 March 2014, the Group did not have any material contingent liabilities (2013: Nil).

ACKNOWLEDGEMENTS

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

Duan Chuan Liang

Chairman

Hong Kong, 27 June 2014

Directors' and Senior Management Biographical Details

DIRECTORS

Executive Directors

Mr. Duan Chuan Liang, aged 51, 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 worked for The Ministry of Water Resources of the PRC 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.

Ms. Ding Bin, aged 38, has over 10 years of experience in financial management and tax planning. Ms. Ding was graduated from Zhengzhou University of Technology in finance and computing management. Ms. Ding is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants. Ms. Ding joined the Group in 2007 and was the general manager assistant and general manager of finance department of the Group prior to her appointment as executive director.

Non-executive Directors

Mr. Chen Guo Ru, aged 68, was graduated from South China Normal University in 1985. Mr. Chen was the deputy general manager of Guangdong Investment Limited and the managing director and chairman of Guangdong Yue Gang Water Supply Company Limited. Mr. Chen joined Dongshen Water Bureau in December 1988 and 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 59, 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 28 years' experience in engineering. He joined the Group in July 2003.

Mr. Zhou Wen Zhi, aged 73, was graduated from Liaoning Agriculture University. He was the vice minister of The Ministry of Water Resources of the PRC from 1991 until his retirement in June 2001. Mr. Zhou has over 12 years' experience in the development and construction of the PRC water resources. He joined the Group in October 2004.

Mr. Makoto Inoue, aged 61, was graduated from Chuo University in Japan with a Bachelor of Law in 1975. Mr. Makoto joined ORIX Corporation, a company listed on the Tokyo Stock Exchange, Osaka Securities Exchange and New York Stock Exchange, in 1975, where he is currently a director, representative executive officer, and the president and chief operating officer. He has over thirty-nine years of experience in leasing and finance, investment banking, and alternative investment in a global context. He joined the Group in July 2012.

Directors' and Senior Management Biographical Details

Independent Non-executive Directors

Ms. Huang Shao Yun, aged 59, has been appointed as independent non-executive director of the Company since July 2003. She is also a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Huang is the financial controller of Beijing Water Conservancy Material Supply Company. Ms. Huang was graduated from Beijing Commercial College with a diploma in accountancy. Ms. Huang has over 37 years of accounting experience.

Ms. Liu Dong, aged 46, has been appointed as independent non-executive director of the Company since February 2007. She is also a member of the audit committee, remuneration committee and nomination committee of the Company. 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 51, has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of certain companies listed in Hong Kong. Mr. Chau obtained a master degree in business administration from the University of San Francisco, United States 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 currently a finance director of Winox Holdings Limited (stock code: 6838) and an independent non-executive director of Carpenter Tan Holdings Limited (stock code: 837), which are both listed on the main board of the Stock Exchange. Mr. Chau is an independent non-executive director of Zhejiang Shibao Company Limited which is listed on both the main board of the Stock Exchange (stock code: 1057) and the SME board of Shenzhen Stock Exchange (stock code: 2703). 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 and a member of the nomination committee of the Company.

Mr. Ong King Keung, aged 38, is the chief financial officer and company secretary of a company whose shares are listed on the main board of the Stock Exchange. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He holds a bachelor's degree in Accountancy from The Hong Kong Polytechnic University and master degree in Corporate Finance from the City University of Hong Kong. He has ample of experiences in auditing, financial management and initial public offering. He was senior management of several listed companies. Since March 2013, Mr. Ong is an independent non-executive director of China Environmental Energy Investment Limited (stock code: 986), which is listed on the main board of the Stock Exchange. He joined the Group in March 2007. He is also a member of the audit committee and remuneration committee of the Company.

SENIOR MANAGEMENT

Mr. Lie Chi Wing, Aston, aged 36, is the company secretary of the Company. He holds a Bachelor Degree of Business Administration (First Class Honors) 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 45, is the executive general manager of the Group. Mr. Liu was 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 14 years of senior management experience in water project design, water construction project management and water plant operation in water industry in China.

Corporate Governance Report

The Company 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 of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

During the year ended 31 March 2014, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.2.7, A.4.2 and A.6.7.

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Duan Chuan Liang serves as the Chairman of the Company. The function of chief executive officer is collectively performed by the executive directors (being Mr. Duan Chuan Liang and Ms. Ding Bin). The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board continues to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has strong confidence in the executive directors and believes that this structure is beneficial to the business prospects of the Company.

Under code provision A.2.7, the Chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As Mr. Duan Chuan Liang, the chairman of the Company, is an executive director of the Company, the Company cannot hold such a meeting where no executive director shall be present.

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.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 6 September 2013 due to their other business commitments.

The Company has formulated and adopted its corporate governance policy ("CG Policy") and it is the responsibility of the Board to perform the corporate governance duties. The CG Policy outlines certain essential corporate governance principles under the CG Code and intends to provide appropriate guidance on the effective application and promotion of corporate governance principles in the Company. The CG Policy is available on the website of the Company.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code throughout the year ended 31 March 2014 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD AND BOARD COMMITTEES

As at 31 March 2014, the Board consisted of ten Directors: comprising two executive Directors, namely Mr. Duan Chuan Liang (Chairman) and Ms. Ding Bin; four non-executive Directors, Mr. Chen Guo Ru, Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi and Mr. Makoto Inoue; and four independent non-executive Directors, namely Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung. Two of the independent non-executive Directors, namely Mr. Chau Kam Wing and Mr. Ong King Keung, have the professional accounting qualifications and expertise required by the Listing Rules. Accordingly, the Company complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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. Details of the experience and qualifications of Directors and senior management of the Company are set out in the section headed "Directors' and Senior Management Biographical Details" in this annual report.

Each of the independent non-executive Directors has confirmed in writing his/her independence from the Company pursuant to rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

There was in place appropriate insurance cover in respect of legal action against the Directors arising out of corporate activities.

Corporate Governance Report

The Board has established three board committees to strengthen its functions and corporate governance practices, namely, audit committee (the "Audit Committee"), nomination committee (the "Nomination Committee") and remuneration committee (the "Remuneration Committee"). The Audit Committee, the Nomination Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference which are available on the website of the Company.

Audit Committee

The Audit Committee comprises wholly independent non-executive Directors.

Members of the Audit Committee

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

Main functions of the Audit Committee are:

- reviewing the accounting policies and supervising the Company's financial reporting process;
- monitoring the performance of both the internal and external auditors;
- reviewing and examining the effectiveness of internal control measures; and
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements.

The Audit Committee is provided with sufficient resources to discharge its responsibilities. For the year ended 31 March 2014, the Audit Committee held two meetings which included the review of the final results for the year ended 31 March 2013 and the interim accounts for the six months ended 30 September 2013 and the internal control system of the Group.

Remuneration Committee

The Remuneration Committee comprises wholly independent non-executive Directors.

Members of the Remuneration Committee

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

Remuneration Committee is responsible for making recommendations to the Board on the remuneration packages of Directors and senior management, with reference to Directors' duties, responsibilities and performance and the results of the Group. No Director will be involved in deciding his own remuneration.

For the year ended 31 March 2014, two meetings were held by the Remuneration Committee which reviewed the remuneration packages of the Directors and senior management.

Corporate Governance Report

Remuneration of Directors and Senior Management

Particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 15 to the financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 March 2014 is set out below:

	Number of Individuals
Nil – HK\$1,000,000	1
HK\$1,000,001 – HK\$2,000,000	1

Nomination Committee

The Nomination Committee comprises four members, amongst which one is executive Director and three are independent non-executive Directors.

Members of the Nomination Committee

Mr. Duan Chuan Liang (*Chairman*)
 Mr. Chau Kam Wing
 Ms. Huang Shao Yun
 Ms. Liu Dong

The Nomination Committee, with the aim to build up a strong and diverse Board, would identify suitable and qualified individuals, in particular those who can add value to the management through their expertise in relevant strategic business areas, to be the board members, and would recommend the Board on relevant matters relating to the appointment or re-appointment of Directors, if necessary. The Nomination Committee shall meet before the holding of each annual general meeting of the Company where the appointment of Directors of the Company will be considered. Additional meetings should be held as and when the work of the Nomination Committee demands.

For the year ended 31 March 2014, the Nomination Committee held two meetings to review the composition of the Board, to assess the independence of independent non-executive Directors and to make recommendations to the Board on the appointment and re-appointment of Directors taking into account their experience and qualifications.

Corporate Governance Report

The individual attendance record of the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings and general meetings attended by each Director during the year ended 31 March 2014 are set out in the following table.

	Notes	Meetings attended/(held)				
		Board	Audit Committee	Remuneration Committee	Nomination Committee	General meeting
<i>Executive Directors</i>						
Mr. Duan Chuan Liang (<i>Chairman</i>)		4/(4)	N/A	N/A	2/(2)	1/(1)
Ms. Ding Bin	1	3/(3)	N/A	N/A	N/A	0/(1)
Mr. Li Ji Sheng	2	0/(1)	N/A	N/A	N/A	N/A
<i>Non-executive Directors</i>						
Mr. Chen Guo Ru		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Zhao Hai Hu		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Zhou Wen Zhi		0/(4)	N/A	N/A	N/A	0/(1)
Mr. Wu Jiesi	3	0/(1)	N/A	N/A	N/A	N/A
Mr. Makoto Inoue		0/(4)	N/A	N/A	N/A	0/(1)
<i>Independent Non-executive Directors</i>						
Ms. Huang Shao Yun		4/(4)	2/(2)	2/(2)	2/(2)	0/(1)
Ms. Liu Dong		4/(4)	2/(2)	2/(2)	2/(2)	0/(1)
Mr. Chau Kam Wing		4/(4)	2/(2)	2/(2)	2/(2)	1/(1)
Mr. Ong King Keung		4/(4)	2/(2)	2/(2)	N/A	1/(1)

Notes:

- Ms. Ding Bin is appointed as an executive director on 28 June 2013. Her attendance is presented by reference to the number of relevant meetings held during her tenure.
- Mr. Li Ji Sheng resigned as an executive director on 28 June 2013. His attendance is presented by reference to the number of relevant meetings held during his tenure.
- Mr. Wu Jiesi resigned as a non-executive director on 28 June 2013. His attendance is presented by reference to the number of relevant meetings held during his tenure.

The Board is provided with relevant materials in relation to the matters brought before the meetings. Reasonable notices of meetings are given to the Directors and the Directors are encouraged to propose new items as any other business for discussion at the meetings. The Director has separate access to the Company's senior management for information at all times and may seek independent professional advice at the Company's expenses, if necessary. Minutes are kept by the company secretary and are open for inspections by all Directors at any reasonable time. Procedures for convening meetings of the Board and Board committees and preparing minutes of the meetings have complied with the requirements of the Articles of Association of the Company and applicable rules and regulations.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 March 2014, Mr. Duan Chuan Liang serves as the Chairman of the Company who is responsible for the leadership of the Board. The function of chief executive officer is collectively performed by the executive Directors (being Mr. Duan Chuan Liang and Ms. Ding Bin), who are responsible for the day-to-day management of the Group's business.

DIRECTORS COMMITMENTS AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company has received confirmation from each Director that he has given sufficient time and attention to the affairs of the Company for the year ended 31 March 2014.

Every newly appointed Director receives an induction upon his/her appointment to ensure that he/she has a proper understanding of operations and business of the Group and is fully aware of responsibilities and obligations of being a Director. The Group provides continuing briefings and professional development to the Directors to update on the latest development in relation to the Listing Rules and other applicable regulatory requirements as well as the Group's business and governance policies.

During the year ended 31 March 2014, all Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group including reading materials in relation to regulatory update and/or attending seminars to develop professional skills.

COMPANY SECRETARY

Mr. Lie Chi Wing, Aston has been appointed as Company Secretary of the Company. He has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge during the year ended 31 March 2014.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

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. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

A statement by the auditor about their reporting responsibilities is set out on page 23 of this annual report.

Corporate Governance Report

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 2014 on areas where rooms for improvement were identified.

AUDITOR'S REMUNERATION

The remuneration payable by the Company to its auditor, BDO Limited ("BDO"), for the year ended 31 March 2014 amounted to HK\$6,120,000 (2013: HK\$5,850,000). HK\$700,000 (2013: HK\$400,000) was paid for other non-audit services provided by BDO for the Company and its subsidiaries during the year ended 31 March 2014.

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

The Company has set up and maintained various channels of communication with its shareholders and the public to ensure that they are kept abreast of the Company's latest news and development. Information about the Company's financial results, corporate details and major events are disseminated through publication of announcements, circulars, interim and annual reports and press release. All published information is promptly uploaded to the Company's website at www.chinawatergroup.com.

Under the clause 58 of the Company's Bye-laws, the Board, on the requisition of shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company. At the annual general meeting, shareholders can raise any questions relating to performance and future direction of the Group with the Directors. The Company maintains contact with its shareholders through annual general meeting or other general meetings, and encourages shareholders to attend those meetings.

During the year ended 31 March 2014, press conferences and analysts' briefings were held subsequent to the interim and final results announcements in which the Directors and management were available to answer questions about the Group. Shareholders can also submit enquiries to the management and send proposals to be put forward at shareholders' meeting to the Board or senior management by sending emails to info@chinawatergroup.com or making phone calls to our investor relations team at +852 3968 6666. In addition, the Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

During the year ended 31 March 2014, there had not been any changes in the Company's constitutional documents.

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 2014.

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 2014 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 154 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2014 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 151. The Directors recommended a final dividend of HK3 cents (2013: 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, 5 September 2014 and will be payable on or about Friday, 10 October 2014 to the shareholders whose names appear on the register of members on Wednesday, 17 September 2014. In addition, the final dividend is subject to the satisfaction of certain conditions under a term facility agreement with a financial institution 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 Monday, 15 September 2014 to Wednesday, 17 September 2014 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 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 12 September 2014.

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 152.

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

Details of movements in the Company's share capital, share options, convertible bonds and derivative financial liabilities during the year are set out in notes 39, 40 and 36 to the financial statements, respectively.

Directors' Report

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2014 and subsequent to the reporting date and up to the date of this annual report, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares repurchased	Highest price per share HK\$	Lowest price per share HK\$	Aggregate consideration (excluding expenses) HK\$
August 2013	8,042,000	2.91	2.64	22,214,000
September 2013	16,158,000	2.95	2.76	46,150,000
October 2013	13,920,000	3.15	2.97	42,898,000
May 2014	5,192,000	2.67	2.37	13,051,000

During the year ended 31 March 2014, the Company repurchased a total of 38,120,000 ordinary shares of HK\$0.01 each in the capital of the Company. Those repurchased shares were cancelled in February 2014. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

Subsequent to the reporting date and up to the date of this annual report, the Company repurchased a total of 5,192,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$13,051,000. Those repurchased shares were not cancelled as at the date of this annual report.

The purchase of the Company's shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively. Details of the distributable reserves of the Company are set out in note 41 to the financial statements. The Company's reserves available for distribution to members at 31 March 2014 amounted to HK\$1,157,722,000 (2013: HK\$1,256,956,000) which comprised contributed surplus of HK\$1,025,836,000 (2013: HK\$1,095,703,000) and surplus of HK\$131,886,000 (2013: HK\$161,253,000).

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' Report

DIRECTORS

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

Executive Directors

Mr. Duan Chuan Liang (*Chairman*)
Ms. Ding Bin (appointed on 28 June 2013)
Mr. Li Ji Sheng (resigned on 28 June 2013)

Non-executive Directors

Mr. Chen Guo Ru
Mr. Zhao Hai Hu
Mr. Zhou Wen Zhi
Mr. Makoto Inoue
Mr. Wu Jiesi (resigned on 28 June 2013)

Independent Non-executive Directors

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

In accordance with clause 87 of the Company's Bye-laws, Mr. Chen Guo Ru, Ms. Huang Shao Yun and Ms. Liu Dong 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 2014, 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' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, to the best knowledge of the Directors, none of the Directors and their respective associates was considered to have any interests in the businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as Directors to represent the interests of the Company and/or the Group.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 2014, 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 Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Shares

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note)	Corporate and personal	326,334,301	–	23.23%
Ms. Ding Bin	Personal	290,000	–	0.02%
Mr. Chen Guo Ru	Personal	3,600,000	–	0.26%
Mr. Zhao Hai Hu	Personal	1,306,000	–	0.09%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%

Note: These 326,334,301 shares consist of 145,258,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 181,076,000 shares held by Mr. Duan personally.

SHARE OPTION SCHEME

The Company adopted the share option scheme on 7 September 2012. Details of the Company's share option scheme are set out in note 40 to the financial statements. As at 31 March 2014, none of the Directors of the Company had been granted options to subscribe for shares in the capital of the Company under the share option scheme.

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

Save as 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 or any of its 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.

Directors' Report

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are determined by reference to the Group's operating results, individual performance and comparable market statistics and recommended by the Remuneration Committee of the Company.

The Company adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme is set out in note 40 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2014, 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	326,334,301	-	-	23.23%	-	-
Asset Full Resources Limited (Note)	Beneficial	145,258,301	-	-	10.34%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	20.73%	-	-
JP Morgan Chase & Co.	Beneficial/Custodian	154,110,850	100,000	143,428,000	10.97%	0.01%	10.21%
Norges Bank	Beneficial	97,954,400	-	-	6.97%	-	-

Note: These shares are beneficially owned by 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 2014, 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.

Directors' Report

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

During the year, the Group has not entered into any significant connected transaction or continuing connected transaction which should be disclosed pursuant to the requirement under the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 49 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 2014.

POST REPORTING DATE EVENTS

Details of the significant post reporting date events of the Group are set out in note 50 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 10 to 16.

AUDITOR

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

On behalf of the board

Duan Chuan Liang
Chairman

Hong Kong, 27 June 2014

Independent Auditor's Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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 25 to 151, which comprise the consolidated and company statements of financial position as at 31 March 2014, 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 Companies Act, 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 about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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.

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 2014, 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

Lam Hung Yun, Andrew

Practising Certificate Number P04092

Hong Kong, 27 June 2014

Consolidated Income Statement

For the year ended 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Revenue	7	2,746,583	2,250,675
Cost of sales		(1,599,324)	(1,280,830)
Gross profit		1,147,259	969,845
Other income	7	170,432	121,328
Selling and distribution costs		(96,935)	(90,356)
Administrative expenses		(438,692)	(356,441)
Other operating expenses		(11,473)	(10,141)
Fair value gain on investment properties		48,701	149,880
Fair value loss on financial assets at fair value through profit or loss		(162)	(190)
Change in fair value of derivative financial instruments		(26,181)	14,918
Gain on disposal of assets and liabilities classified as held for sale	44	–	41,526
(Loss)/Gain on repurchase/redemption of convertible bonds		(1,441)	882
Gain on disposal of subsidiaries	45	37,032	–
Profit from operation	9	828,540	841,251
Finance costs	10	(106,902)	(86,520)
Share of results of associates		66,005	9,747
Profit before income tax		787,643	764,478
Income tax expense	11	(230,092)	(238,939)
Profit for the year		557,551	525,539
Profit for the year attributable to:			
Owners of the Company	12	281,295	285,809
Non-controlling interests		276,256	239,730
		557,551	525,539
Earnings per share for profit attributable to owners of the Company during the year	14	HK cents	HK cents
Basic		19.77	19.72
Diluted		19.77	18.79

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Profit for the year		557,551	525,539
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
– Change in fair value of available-for-sale financial assets	21	3,593	3,809
– Currency translation		52,166	48,557
– Share of other comprehensive income of associates		12,195	(10,691)
– Reclassification adjustment – Disposal of subsidiaries	45	(17,687)	–
Other comprehensive income for the year, net of tax		50,267	41,675
Total comprehensive income for the year		607,818	567,214
Total comprehensive income attributable to:			
Owners of the Company		315,625	307,087
Non-controlling interests		292,193	260,127
		607,818	567,214

Consolidated Statement of Financial Position

As at 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	5,425,110	4,744,518
Prepaid land lease payments	17	549,559	521,781
Investment properties	18	485,515	740,283
Interests in associates	20	1,341,151	966,412
Available-for-sale financial assets	21	163,816	161,946
Goodwill	22	242,052	185,775
Other intangible assets	23	181,999	187,756
Deposits and prepayments	24	188,618	207,384
		8,577,820	7,715,855
Current assets			
Properties under development	25	596,650	803,542
Properties held for sale	26	37,921	75,605
Inventories	27	248,569	191,363
Trade and bills receivables	28	577,610	530,385
Amounts due from grantors for contract work	29	285,557	111,076
Financial assets at fair value through profit or loss	30	1,303	1,447
Due from non-controlling equity holders of subsidiaries	35	348,292	359,727
Due from associates	20	252,298	118,588
Prepayments, deposits and other receivables	24	734,481	670,514
Derivative financial assets	21(a)	77,056	103,990
Pledged deposits	31	179,200	49,685
Deposits and cash	31	1,590,125	918,146
		4,929,062	3,934,068
Current liabilities			
Trade and bills payables	32	529,023	530,168
Accrued liabilities, deposits received and other payables	33	1,521,007	1,797,356
Due to associates	20	67,317	49,454
Borrowings	34	1,299,281	653,120
Due to non-controlling equity holders of subsidiaries	35	210,236	198,817
Provision for tax		339,840	248,858
Convertible bonds	36	–	300,197
Derivative financial liabilities	36	4,976	14,513
		3,971,680	3,792,483
Net current assets		957,382	141,585
Total assets less current liabilities		9,535,202	7,857,440

Consolidated Statement of Financial Position

As at 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Non-current liabilities			
Borrowings	34	3,360,045	2,075,636
Due to non-controlling equity holders of subsidiaries	35	13,154	21,740
Convertible bonds	36	163,461	196,641
Deposits received	33	38,911	9,658
Deferred government grants	37	85,321	52,296
Deferred tax liabilities	38	178,182	307,536
		3,839,074	2,663,507
Net assets			
		5,696,128	5,193,933
EQUITY			
Equity attributable to owners of the Company			
Share capital	39	14,049	14,430
Proposed final dividend	13	42,147	43,291
Reserves		3,474,235	3,325,479
		3,530,431	3,383,200
Non-controlling interests			
		2,165,697	1,810,733
Total equity			
		5,696,128	5,193,933

Duan Chuan Liang
Director

Ding Bin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

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 2012	14,521	43,562	438,701	2,035	1,168,005	347,694	5,204	(319,652)	2,898	120,611	1,423,790	3,247,369	1,794,072	5,041,441
Share repurchase (note 39)	(91)	-	(20,838)	-	-	-	-	-	-	-	-	(20,929)	-	(20,929)
Share repurchase expenses	-	-	(90)	-	-	-	-	-	-	-	-	(90)	-	(90)
Arising from acquisition of subsidiaries (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	26,461	26,461
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	(44,291)	-	-	-	(44,291)	(30,540)	(74,831)
Arising from disposal of assets and liabilities classified as held for sale (note 44)	-	-	-	-	-	(18,242)	-	(9,579)	-	(5,552)	-	(33,373)	(158,231)	(191,604)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	8,989	8,989
Final dividend 2012 (note 13)	-	(43,562)	-	-	18	-	-	-	-	-	-	(43,544)	-	(43,544)
Interim dividend 2013 (note 13)	-	-	-	-	(29,029)	-	-	-	-	-	-	(29,029)	-	(29,029)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(90,145)	(90,145)
Transactions with owners	(91)	(43,562)	(20,928)	-	(29,011)	(18,242)	-	(53,870)	-	(5,552)	-	(171,256)	(243,466)	(414,722)
Proposed final dividend 2013 (note 13)	-	43,291	-	-	(43,291)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	91	-	-	-	-	-	-	(91)	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	36,566	(36,566)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	285,809	285,809	239,730	525,539
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	3,809	-	-	3,809	-	3,809
-Currency translation	-	-	-	-	-	28,160	-	-	-	-	-	28,160	20,397	48,557
-Share of other comprehensive income of associates	-	-	-	-	-	-	-	(10,691)	-	-	-	(10,691)	-	(10,691)
Total comprehensive income for the year	-	-	-	-	-	28,160	-	(10,691)	3,809	-	285,809	307,087	260,127	567,214
Balance at 31 March 2013	14,430	43,291	417,773	2,126	1,095,703	357,612	5,204	(384,213)	6,707	151,625	1,672,942	3,383,200	1,810,733	5,193,933

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

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 2013	14,430	43,291	417,773	2,126	1,095,703	357,612	5,204	(384,213)	6,707	151,625	1,672,942	3,383,200	1,810,733	5,193,933
Share repurchase (note 39)	(381)	-	(110,881)	-	-	-	-	-	-	-	-	(111,262)	-	(111,262)
Share repurchase expenses	-	-	(465)	-	-	-	-	-	-	-	-	(465)	-	(465)
Arising from acquisition of subsidiaries (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	91,046	91,046
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	7,302	-	-	-	7,302	(13,993)	(6,691)
Arising from deemed disposal of subsidiaries (note 43)	-	-	-	-	-	-	-	(3,613)	-	-	-	(3,613)	3,613	-
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	96,109	96,109
Final dividend 2013 (note 13)	-	(43,291)	-	-	379	-	-	-	-	-	-	(42,912)	-	(42,912)
Interim dividend 2014 (note 13)	-	-	-	-	(28,099)	-	-	-	-	-	-	(28,099)	-	(28,099)
Disposal of subsidiaries (note 45)	-	-	-	-	-	-	-	-	-	-	-	-	(67,503)	(67,503)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(46,501)	(46,501)
Transactions with owners	(381)	(43,291)	(111,346)	-	(27,720)	-	-	3,689	-	-	-	(179,049)	62,771	(116,278)
Proposed final dividend 2014 (note 13)	-	42,147	-	-	(42,147)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	381	-	-	-	-	-	-	(381)	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	43,512	(43,512)	-	-	-
Share of associates reserves	-	-	-	-	-	-	9,212	1,443	-	-	-	10,655	-	10,655
Profit for the year	-	-	-	-	-	-	-	-	-	-	281,295	281,295	276,256	557,551
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	3,593	-	-	3,593	-	3,593
-Currency translation	-	-	-	-	-	36,229	-	-	-	-	-	36,229	15,937	52,166
-Share of other comprehensive income of associates	-	-	-	-	-	12,195	-	-	-	-	-	12,195	-	12,195
-Reclassification adjustment – Disposal of subsidiaries	-	-	-	-	-	(17,687)	-	-	-	-	-	(17,687)	-	(17,687)
Total comprehensive income for the year	-	-	-	-	-	30,737	-	-	3,593	-	281,295	315,625	292,193	607,818
Balance at 31 March 2014	14,049	42,147	306,427	2,507	1,025,836	388,349	14,416	(379,081)	10,300	195,137	1,910,344	3,530,431	2,165,697	5,696,128

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Cash flows from operating activities			
Profit before income tax		787,643	764,478
Adjustments for:			
Finance costs	10	106,902	86,520
Share of results of associates		(66,005)	(9,747)
Interest income	7	(59,634)	(31,206)
Dividend income from financial assets	7	(3,753)	(282)
Amortisation of deferred government grants	7	(2,943)	(2,907)
Depreciation	9	288,830	243,196
Amortisation of prepaid land lease payments	9	16,388	14,981
Amortisation of other intangible assets	9	9,287	9,127
Amortisation of capitalised expenses		13,199	3,001
Gain on disposal of property, plant and equipment	9	(3,134)	(687)
Property, plant and equipment written off	9	2,965	110
Trade receivables written off	9	–	2,310
Reversal of provision of doubtful debts	9	(2,963)	–
Fair value gain on investment properties	18	(48,701)	(149,880)
Loss on disposal of investment properties	9	–	1,875
Gain on disposal of subsidiaries	45	(37,032)	–
Goodwill written off	9	2,986	–
Gain on disposal of assets and liabilities classified as held for sale	44	–	(41,526)
Fair value loss on financial assets at fair value through profit or loss		162	190
Change in fair value of derivative financial instruments		26,181	(14,918)
Loss/(Gain) on repurchase/redemption of convertible bonds		1,441	(882)
Operating profit before working capital changes		1,031,819	873,753
Increase in properties under development		(93,048)	(146,433)
Decrease in properties held for sale, net		16,800	112,388
Increase in inventories		(75,685)	(8,933)
Increase in trade and bills receivables		(78,447)	(167,053)
Decrease/(Increase) in amounts due from grantors for contract work		4,418	(4,530)
Decrease/(Increase) in amounts due from non-controlling equity holders of subsidiaries		21,435	(190,409)
Increase in prepayments, deposits and other receivables		(224,821)	(86,792)
Increase in trade and bills payables		6,099	72,181
(Decrease)/Increase in accrued liabilities, deposits received and other payables		(54,507)	578,756
Cash generated from operations		554,063	1,032,928
Interest paid for bank and other borrowings		(93,384)	(46,926)
Income taxes paid		(105,569)	(113,542)
<i>Net cash generated from operating activities</i>		355,110	872,460

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Cash flows from investing activities			
Interest received		59,634	31,206
Dividend received		3,753	282
Purchase of property, plant and equipment		(793,543)	(826,124)
Proceeds from disposal of property, plant and equipment		32,868	46,996
Land lease payments prepaid		(26,978)	(2,928)
Purchase of investment properties		(5,729)	(50,218)
Proceeds from disposal of investment properties		–	21,007
Purchase of water supply concession rights		(1,069)	(1,445)
Deposits paid		–	(96,375)
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	42	(34,626)	(2,428)
Disposal of subsidiaries (net of cash and cash equivalent disposed)	45	26,271	–
Investments in associates		(129,613)	(90,466)
Dividends received from associates		8,885	7,256
Increase in amounts due from associates		(206,116)	(9,909)
Purchase of available-for-sale financial assets		–	(37,500)
Net cash flows from disposal of assets and liabilities classified as held for sales		–	(6,036)
Deferred government grants received		35,306	–
Increase in pledged deposits		(137,362)	(31,776)
Decrease in cash deposit with an original maturity of more than 3 months		–	88,657
<i>Net cash used in investing activities</i>		(1,168,319)	(959,801)

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

Notes	2014 HK\$'000	2013 HK\$'000
Cash flows from financing activities		
Acquisition of non-controlling interests	(6,691)	(74,831)
Payment for repurchase of ordinary shares	(111,727)	(21,019)
Repurchase/redemption of convertible bonds	(348,979)	(67,678)
Interest on convertible bonds	(8,141)	(13,718)
Advance from/(Repayment to) non-controlling equity holders of subsidiaries of the Company	217,644	(73,619)
Injection by non-controlling equity holders of subsidiaries of the Company	96,109	8,989
Fund advanced from associates	17,863	43,873
Drawdown of bank loans	2,432,990	947,139
Repayment of bank loans	(606,387)	(526,730)
Drawdown of other borrowings	–	39,831
Repayment of other borrowings	(113,864)	(158,122)
Dividend paid	(71,011)	(72,573)
<i>Net cash generated from financing activities</i>	1,497,806	31,542
Net increase/(decrease) in cash and cash equivalents	684,597	(55,799)
Cash and cash equivalents at beginning of year	918,146	985,458
Effect of foreign exchange rates, net	(12,618)	(11,513)
Cash and cash equivalents at end of year	1,590,125	918,146
Analysis of cash and cash equivalents		
Deposits and cash	31 1,590,125	918,146

Company Statement of Financial Position

As at 31 March 2014

	Notes	2014 HK\$'000	2013 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	2,198	2,935
Interests in subsidiaries	19	1,656,541	1,160,175
Available-for-sale financial assets	21	321,560	324,137
Deposit	24	–	10,000
		1,980,299	1,497,247
Current assets			
Due from subsidiaries	19	1,481,306	1,342,306
Prepayments, deposits and other receivables	24	22,505	37,089
Deposits and cash	31	572,577	145,659
		2,076,388	1,525,054
Current liabilities			
Due to subsidiaries	19	127,264	159,287
Accrued liabilities and other payables	33	58,346	33,846
Provision for tax		4	4
Borrowings	34	260,720	–
Convertible bonds	36	–	300,197
Derivative financial liabilities	36	4,976	14,513
		451,310	507,847
Net current assets		1,625,078	1,017,207
Total assets less current liabilities		3,605,377	2,514,454
Non-current liabilities			
Borrowings	34	1,892,615	533,528
Convertible bonds	36	163,461	196,641
		2,056,076	730,169
Net assets		1,549,301	1,784,285
EQUITY			
Share capital	39	14,049	14,430
Proposed final dividend	13	42,147	43,291
Reserves	41(b)	1,493,105	1,726,564
Total equity		1,549,301	1,784,285

Duan Chuan Liang
Director

Ding Bin
Director

Notes to the Financial Statements

For the year ended 31 March 2014

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 consolidated financial statements. The Company and its subsidiaries are together defined to as the "Group" hereafter.

The consolidated financial statements for the year ended 31 March 2014 were approved for issue by the board of directors (the "Directors") on 27 June 2014.

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

2.1 Adoption of amended HKFRSs

In the current year, the Group has applied for the first time the following amendments ("the new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 April 2013:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures

The adoption of these amendments has no material impact on the Group's consolidated financial statements.

HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle

The Basis of Conclusions for HKFRS 13 Fair Value Measurement was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group's existing accounting policy.

Notes to the Financial Statements

For the year ended 31 March 2014

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

2.1 Adoption of amended HKFRSs (Continued)

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The Group has adopted the amendments retrospectively for the year ended 31 March 2013. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group’s financial position or performance.

Amendments to HKFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32. The adoption of the amendments has no impact on these consolidated financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of “de facto” control where an investor can control an investee while holding less than 50% of the investee’s voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them.

The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 (2008) on other consolidation related matters are carried forward unchanged.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 April 2013.

Notes to the Financial Statements

For the year ended 31 March 2014

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

2.1 Adoption of amended HKFRSs (Continued)

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity’s interests in other entities and the effects of those interests on the reporting entity’s financial statements. The Directors conclude that the adoption of HKFRS 12 has no material impact on the Group’s financial position and performance.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 “Financial Instruments: Disclosures”. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group’s assets and liabilities and therefore has no effect on the Group’s financial position and performance. The standard requires disclosure about fair value measurements and these are included in notes 18 and 47.

2.2 New/revised HKFRSs that have been issued and have been early adopted

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit (CGU) to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are effective for annual periods commencing on or after 1 January 2014. The Group has early adopted the amendments to HKAS 36 in the current period.

Notes to the Financial Statements

For the year ended 31 March 2014

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

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

The following new/revised HKFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 9	Financial Instruments
HK (IFRIC) – Int 21	Levies ¹
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle ³
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity “currently has a legal enforceable right to set off” and when a gross settlement mechanism is considered equivalent to net settlement.

HKFRS 9 – Financial Instruments

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and 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. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply.

HK (IFRIC) 21 – Levies

HK (IFRIC) 21 clarifies that an entity recognises a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation occurs.

Notes to the Financial Statements

For the year ended 31 March 2014

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 ("Listing Rules").

(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 in note 4.

(c) Functional and presentation currency

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

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.

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 that represents a present ownership interest in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combination and basis of consolidation (Continued)

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.

Subsequent to acquisition, the carrying amount of non-controlling interest that represents a present ownership interest in the subsidiary 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.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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 2014

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. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

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. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4.4 Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated; the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Assets classified as held for sale (Continued)

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

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 operate (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.

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 exchange fluctuation 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.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Foreign currency (Continued)

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 the costs directly attributable to the acquisition of items.

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. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4.9 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 consideration transferred of a business combination and the amount recognised for non-controlling interest over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The consideration transferred 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.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Goodwill (Continued)

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 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 2014

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.

Notes to the Financial Statements

For the year ended 31 March 2014

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; and
- 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.

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 2014

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 amortised 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. Gains 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 and bills payables, accrued liabilities and other payables, due to subsidiaries, due to associates, 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.

Notes to the Financial Statements

For the year ended 31 March 2014

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 amortised 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 2014

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.

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 arrangement 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 (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 Service concession arrangements (Continued)

Consideration received or receivable by the Group for the construction services (Continued)

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 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

4.16 Government grants

Government grant 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, bank and cash balances comprise cash on hand and at banks/other financial institutions, including term deposits, which are not restricted as to use.

Notes to the Financial Statements

For the year ended 31 March 2014

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 leased 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 2014

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 and properties 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;
- (x) Rental income receivable from operating lease is recognised in profit or loss on a straight-line basis over the periods covered by the lease term; and
- (xi) Income from financial guarantee (as the case may be, including assessment fee related to issuance of financial guarantee) is recognised over the contract period on a time apportionment basis.

Notes to the Financial Statements

For the year ended 31 March 2014

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 and associates are subject to impairment testing.

Goodwill and other 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 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.23 Employee benefits

(i) *Defined 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 defined 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*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

4.24 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 cost capitalised. All other borrowing cost are recognised in profit or loss in the period in which they are incurred.

4.25 Income tax

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

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

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 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.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.25 Income tax (Continued)

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

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 or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

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

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

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

- (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 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 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) "Concrete related products and services" segment involves production and sales of ready-mixed concrete and related services.

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". "All other segments" includes other infrastructure construction 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 arm's length prices.

The measurement policies the Group use for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that fair value loss on financial assets at fair value through profit or loss, change in fair value of derivative financial instruments, gain on disposal of assets and liabilities classified as held for sale, gain on disposal of subsidiaries, finance costs, share of results of associates, corporate income, corporate expense, income tax expense and gain/loss on repurchase/redemption of convertible bonds are excluded from segment results.

Segment assets 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 exclude items such as taxation, corporate borrowings and other corporate liabilities.

No asymmetrical allocations have been applied to reportable segments.

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4.28 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract at the higher of: (i) the amount determined in accordance with the Group's accounting policy on "Provisions and contingent liabilities"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the Group's policy on "Revenue recognition".

Notes to the Financial Statements

For the year ended 31 March 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.28 Financial guarantee contracts (Continued)

Where the Group issue a financial guarantee, the contracted fee of the guarantee is initially recognised as deferred income. Where the contracted fee is received or receivable for the issuance of the guarantee, it is recognised in accordance with the Group's policies applicable to that category of asset. Where no such contracted fee is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of the corresponding liability.

The contracted fee of the financial guarantee initially recognised as deferred income is amortised and recognised as revenue in profit or loss over the term of the guarantee as income from financial guarantee issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation in accordance with the Group's accounting policy on "Revenue recognition", where appropriate.

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 judgments, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgments, 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.

(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.

Notes to the Financial Statements

For the year ended 31 March 2014

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(iii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.22. 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) Fair value measurement

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Investment properties (note 18);
- Available-for-sale financial assets (note 21);
- Financial assets at fair value through profit or loss (note 30);
- Derivative financial assets (note 21(a)); and
- Derivative financial liabilities (note 36).

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

Notes to the Financial Statements

For the year ended 31 March 2014

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 2014

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(x) 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.

(xi) Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

6. SERVICE CONCESSION ARRANGEMENTS

The Group 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 20 to 30 years (2013: 25 to 30 years) (the "Service Concession Periods"), and the Group will be paid for its services over the relevant Service Concession Periods at prices stipulated through a pricing mechanism.

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

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

Notes to the Financial Statements

For the year ended 31 March 2014

6. SERVICE CONCESSION ARRANGEMENTS (Continued)

As at 31 March 2014, the Group had ten service concession arrangements (2013: five) 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 ("Yanshan Water")	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 ("Yanshan Sewage")	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 ("Wannian Sewage")	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 ("Fenyi Sewage")	PRC	分宜縣建設局	BOT	10,000	March 2008 – March 2038
荊州中水環保有限公司 ("Jingzhou Sewage")	PRC	荊州市建設委員會	TOT	100,000	December 2006 – December 2031
天津世昇水治理有限公司 ("Tianjin Shisheng")	PRC	天津市武清區人民政府	BOT	30,000	November 2003 – February 2027
天津正坤水處理有限公司 ("Tianjin Zhengkun")	PRC	天津市武清區人民政府	BOT	20,000	December 2010 – November 2030
天津重科水處理有限公司 ("Tianjin Zhongke")	PRC	天津市武清區人民政府	BOT	30,000	June 2013 – June 2023
邯鄲市峰峰錦晟污水處理有限公司 ("Handan Fengfeng Jinsheng")	PRC	河北省邯鄲市峰峰礦區城市管理局	BOT	20,000	October 2012 – September 2032
邯鄲成晟水務有限公司 ("Handan Chengsheng")	PRC	河北省邯鄲市峰峰礦區城市管理局	BOT	33,000	September 2007 – August 2029

Notes to the Financial Statements

For the year ended 31 March 2014

7. REVENUE AND OTHER INCOME

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

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

	2014 HK\$'000	2013 HK\$'000
Revenue:		
Sales of goods	426,094	300,706
Sales of properties	360,641	204,881
Water supply operation services	1,105,697	976,410
Water supply construction services – intangible assets	1,069	1,445
Water supply related installation	671,050	645,763
Sewage treatment operation services	68,708	43,374
Sewage treatment construction services – financial assets	3,437	2,223
Hotel and rental income	29,119	23,233
Finance income	10,210	5,313
Others	70,558	47,327
Total	<u>2,746,583</u>	<u>2,250,675</u>
Other income:		
Interest income	59,634	31,206
Government grants and subsidies [#]	67,928	50,150
Amortisation of deferred government grants	2,943	2,907
Gain on disposal of property, plant and equipment	3,134	687
Dividend income from financial assets	3,753	282
Miscellaneous income	33,040	36,096
Total	<u>170,432</u>	<u>121,328</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 2014

8. SEGMENT INFORMATION

The executive directors have identified the Group's five product and service lines as reportable segments as further described in note 4.26.

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

For the year ended 31 March 2014

	City water supply operation and construction HK\$'000	Sewage treatment operation and construction HK\$'000	Property development and investment HK\$'000	Concrete related products and services HK\$'000	All other segments HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue							
From external customers	1,875,383	82,355	385,317	356,628	46,900	-	2,746,583
From inter-segment	2	-	-	360	12,824	(13,186)	-
Segment revenue	<u>1,875,385</u>	<u>82,355</u>	<u>385,317</u>	<u>356,988</u>	<u>59,724</u>	<u>(13,186)</u>	<u>2,746,583</u>
Segment profit/(loss)	<u>730,603</u>	<u>31,495</u>	<u>90,310</u>	<u>44,746</u>	<u>(10,310)</u>	<u>-</u>	<u>886,844</u>
Unallocated corporate income							63,387
Unallocated corporate expense							(130,939)
Gain on disposal of subsidiaries							37,032
Fair value loss on financial assets at fair value through profit or loss							(162)
Change in fair value of derivative financial instruments							(26,181)
Loss on repurchase/redemption of convertible bonds							(1,441)
Finance costs							(106,902)
Share of results of associates	11,712	-	26,667	-	27,626	-	66,005
Profit before income tax							787,643
Income tax expense							(230,092)
Profit for the year							<u>557,551</u>
Other segment information							
Addition of investment properties	-	-	5,729	10,545	-	-	16,274
Additions to other non-current segment assets	767,701	562	28,618	33,804	35,740	-	866,425
Amortisation of deferred government grants	(2,681)	(262)	-	-	-	-	(2,943)
Amortisation of other intangible assets	2,705	6,582	-	-	-	-	9,287
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	263,899	560	17,576	9,375	13,808	-	305,218
Property, plant and equipment written off	2,248	621	-	-	96	-	2,965
(Gain)/Loss on disposal of property, plant and equipment	(3,129)	-	-	(15)	10	-	(3,134)
Fair value gain on investment properties	-	-	(48,701)	-	-	-	(48,701)
Goodwill written off	-	-	-	-	2,986	-	2,986
Reversal of provision of doubtful debts	(2,963)	-	-	-	-	-	(2,963)

Notes to the Financial Statements

For the year ended 31 March 2014

8. SEGMENT INFORMATION (Continued) For the year ended 31 March 2014 (Continued)

	City water supply operation and construction HK\$'000	Sewage treatment operation and construction HK\$'000	Property development and investment HK\$'000	Concrete related products and services HK\$'000	All other segments HK\$'000	Total HK\$'000
Segment assets	6,882,817	487,408	1,554,628	390,599	611,200	9,926,652
Other financial assets						242,175
Interests in associates	194,788	13,477	902,823	-	230,063	1,341,151
Other corporate assets						1,996,904
						<u>13,506,882</u>
Segment liabilities	1,762,873	23,816	174,652	170,619	227,562	2,359,522
Deferred tax liabilities						178,182
Provision for tax						339,840
Other corporate liabilities						4,933,210
						<u>7,810,754</u>

Notes to the Financial Statements

For the year ended 31 March 2014

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2013

	City water supply operation and construction HK\$'000	Sewage treatment operation and construction HK\$'000	Property development and investment HK\$'000	Concrete related products and services (Restated) HK\$'000	All other Segments (Restated) HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue							
From external customers	1,733,940	50,910	223,592	159,522	82,711	-	2,250,675
From inter-segment	44	-	-	1,257	6,387	(7,688)	-
Segment revenue	<u>1,733,984</u>	<u>50,910</u>	<u>223,592</u>	<u>160,779</u>	<u>89,098</u>	<u>(7,688)</u>	<u>2,250,675</u>
Segment profit/(loss)	<u>614,971</u>	<u>21,195</u>	<u>196,728</u>	<u>17,070</u>	<u>(2,038)</u>	<u>-</u>	<u>847,926</u>
Unallocated corporate income							34,569
Unallocated corporate expense							(98,380)
Gain on disposal of assets and liabilities classified as held for sale							41,526
Fair value loss on financial assets at fair value through profit or loss							(190)
Change in fair value of derivative financial instruments							14,918
Gain on repurchase/redemption of convertible bonds							882
Finance costs							(86,520)
Share of results of associates	11,272	-	(1,525)	-	-	-	9,747
Profit before income tax							764,478
Income tax expense							(238,939)
Profit for the year							<u>525,539</u>
Other segment information							
Addition of investment properties	-	-	50,218	-	-	-	50,218
Additions to other non-current segment assets	705,909	291	29,788	47,427	47,082	-	830,497
Amortisation of deferred government grants	(2,648)	(259)	-	-	-	-	(2,907)
Amortisation of other intangible assets	2,627	6,500	-	-	-	-	9,127
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	225,738	315	13,540	9,563	9,021	-	258,177
Property, plant and equipment written off	110	-	-	-	-	-	110
Gain on disposal of property, plant and equipment	(651)	-	-	(36)	-	-	(687)
Fair value gain on investment properties	-	-	(149,880)	-	-	-	(149,880)
Loss on disposal of investment properties	-	-	1,875	-	-	-	1,875
Trade receivables written off	1,843	-	-	-	467	-	2,310

Notes to the Financial Statements

For the year ended 31 March 2014

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2013 (Continued)

	City water supply operation and construction HK\$'000	Sewage treatment operation and construction HK\$'000	Property development and investment HK\$'000	Concrete related products and services (Restated) HK\$'000	All other Segments (Restated) HK\$'000	Total HK\$'000
Segment assets	5,794,885	253,975	2,146,181	283,228	616,168	9,094,437
Other financial assets						267,383
Interests in associates	185,525	–	780,887	–	–	966,412
Other corporate assets						1,321,691
						<u>11,649,923</u>
Segment liabilities	1,567,473	20,638	624,095	146,924	201,607	2,560,737
Deferred tax liabilities						307,536
Provision for tax						248,858
Other corporate liabilities						3,338,859
						<u>6,455,990</u>

For the years ended 31 March 2014 and 2013, the Group did not depend on any single customers under each of the segments.

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

"Concrete related products and services" is separately reported this year. Certain comparative figures of segment information were therefore restated.

Notes to the Financial Statements

For the year ended 31 March 2014

9. PROFIT FROM OPERATION

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

	2014 HK\$'000	2013 HK\$'000
Cost of inventories sold	1,599,324	1,280,830
Depreciation	288,830	243,196
Amortisation of prepaid land lease payments	16,388	14,981
Amortisation of other intangible assets	9,287	9,127
Operating leases in respect of		
– leasehold land and buildings	18,198	12,464
– other property, plant and equipment	26,287	18,372
Auditors' remuneration	6,120	5,850
Staff costs (including directors' emoluments – note 15(a)):		
Salaries and wages	320,225	272,857
Pension scheme contribution	54,640	40,209
	374,865	313,066
Loss on disposal of investment properties	–	1,875
Gain on disposal of property, plant and equipment	(3,134)	(687)
Goodwill written off	2,986	–
Property, plant and equipment written off	2,965	110
Reversal of provision of doubtful debts	(2,963)	–
Trade receivables written off	–	2,310
Net foreign exchange gain	(1,913)	(8,024)

Notes to the Financial Statements

For the year ended 31 March 2014

10. FINANCE COSTS

	2014 HK\$'000	2013 HK\$'000
Interest on bank loans		
– wholly repayable within five years	138,445	93,117
– not wholly repayable within five years	60,957	36,338
Interest on other borrowings		
– wholly repayable within five years	21,938	12,016
– not wholly repayable within five years	3,945	9,208
Interest on convertible bonds	13,518	39,594
Total borrowing costs	238,803	190,273
Less: interest capitalised included in property, plant and equipment and properties under development (note)	(131,901)	(103,753)
	<u>106,902</u>	<u>86,520</u>

Note:

Included in construction-in-progress under property, plant and equipment and properties under development is accumulated interest capitalised of HK\$215,793,000 (2013: HK\$123,001,000) at the capitalisation rates ranging from 2.28% to 8.32% (2013: 3.27% to 8.22%).

11. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2014 HK\$'000	2013 HK\$'000
Current		
– PRC	209,945	173,214
Deferred tax (note 38)	20,147	65,725
Total income tax expense	<u>230,092</u>	<u>238,939</u>

No Hong Kong profits tax has been provided for the year ended 31 March 2014 as the Group did not derive any assessable profit arising in Hong Kong (2013: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

Notes to the Financial Statements

For the year ended 31 March 2014

11. INCOME TAX EXPENSE (Continued)

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014 HK\$'000	2013 HK\$'000
Profit before income tax	787,643	764,478
Tax at applicable rate of 16.5% (2013: 16.5%)	129,961	126,139
Tax effect of non-taxable items	(33,027)	(12,720)
Tax effect of non-deductible items	29,866	35,631
Tax concession	(7,032)	(7,647)
Others	23,366	20,682
Effect of different tax rates of subsidiaries operating in other jurisdictions	86,958	76,854
Income tax expense	230,092	238,939

At 31 March 2014, the Group has unused tax losses of HK\$13,420,000 (2013: HK\$13,357,000) 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.

At 31 March 2014, 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\$36,386,000 (2013: HK\$28,257,000). 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.

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\$281,295,000 (2013: HK\$285,809,000), a loss of HK\$28,986,000 (2013: profit of HK\$133,911,000) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 March 2014

13. DIVIDENDS

(a) Dividends attributable to the year

	2014 HK\$'000	2013 HK\$'000
Proposed final dividend		
– HK\$0.03 (2013: HK\$0.03) per ordinary share	42,147	43,291
Interim dividend		
– HK\$0.02 (2013: HK\$0.02) per ordinary share	28,099	29,029
	70,246	72,320

The final dividends proposed after the reporting date for the year ended 31 March 2014 and 2013 have not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the year ended 31 March 2014 and 2013 respectively. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting; and the satisfaction of certain conditions under a term facility agreement with a financial institution 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

	2014 HK\$'000	2013 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.03 (2013: HK\$0.03) per ordinary share	43,291	43,562
Adjustment to the final dividend (note)	(379)	(18)
	42,912	43,544

Note:

The adjustment was made due to share repurchase 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 2014 amounted to HK\$71,011,000 (2013: HK\$72,573,000) or HK\$0.05 per ordinary share (2013: HK\$0.05 per ordinary share).

Notes to the Financial Statements

For the year ended 31 March 2014

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\$281,295,000 (2013: HK\$285,809,000) and the weighted average of 1,423,190,114 (2013: 1,449,324,570) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31 March 2014 is the same as the basic earnings per share because the impact of the potential dilutive ordinary shares outstanding is anti-dilutive.

The calculation of the diluted earnings per share for the year ended 31 March 2013 is based on the profit attributable to the owners of the Company of HK\$285,809,000 and after adjustments to reflect the effect of conversion of convertible bonds, which was HK\$304,582,000 and on the weighted average of 1,620,950,060 ordinary shares during the year, being the weighted average number of ordinary shares of 1,449,324,570 used in basic earnings per share calculation and adjusted for the effect of conversion of convertible bonds existing during the year of 171,625,490 ordinary shares.

Notes to the Financial Statements

For the year ended 31 March 2014

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	Retirement scheme contribution HK\$'000	Total HK\$'000
2014					
Executive directors					
Mr. Duan Chuan Liang	-	9,333	17,000	27	26,360
Mr. Li Ji Sheng (resigned with effect from 28 June 2013)	-	181	-	-	181
Ms. Ding Bin (appointed with effect from 28 June 2013)	-	300	25	39	364
Non-executive directors					
Mr. Chen Guo Ru	-	180	-	-	180
Mr. Zhao Hai Hu	-	473	-	12	485
Mr. Zhou Wen Zhi	-	120	-	-	120
Mr. Wu Jiesi (resigned with effect from 28 June 2013)	-	15	-	-	15
Mr. Makoto Inone	-	60	-	-	60
Independent non-executive directors					
Ms. Huang Shao Yun	24	-	-	-	24
Mr. Chau Kam Wing	348	-	-	-	348
Mr. Ong King Keung	300	-	-	-	300
Ms. Liu Dong	72	-	-	-	72
	<u>744</u>	<u>10,662</u>	<u>17,025</u>	<u>78</u>	<u>28,509</u>
2013					
Executive directors					
Mr. Duan Chuan Liang	-	6,000	15,000	25	21,025
Mr. Li Ji Sheng	-	517	331	-	848
Non-executive directors					
Mr. Chen Guo Ru	-	180	-	-	180
Mr. Zhao Hai Hu	-	445	-	9	454
Mr. Zhou Wen Zhi	-	120	-	-	120
Mr. Wu Jiesi	-	60	-	-	60
Mr. Makoto Inone (appointed with effect from 20 July 2012)	-	42	-	-	42
Independent non-executive directors					
Ms. Huang Shao Yun	24	-	-	-	24
Mr. Chau Kam Wing	348	-	-	-	348
Mr. Ong King Keung	300	-	-	-	300
Ms. Liu Dong	72	-	-	-	72
	<u>744</u>	<u>7,364</u>	<u>15,331</u>	<u>34</u>	<u>23,473</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

Notes to the Financial Statements

For the year ended 31 March 2014

15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included one director (2013: 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:

	2014 HK\$'000	2013 HK\$'000
Salaries, allowances and other benefits	4,586	7,427
Retirement scheme contribution	60	44
	<u>4,646</u>	<u>7,471</u>

The emoluments fell within the following bands:

	2014	2013
Nil to HK\$1,000,000	2	–
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	–	1
Over HK\$2,500,000	–	1
	<u>–</u>	<u>4</u>

During the years ended 31 March 2014 and 2013, 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 2014

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 2012								
Cost	1,050,699	40,135	619,801	2,302,506	111,150	20,250	650,557	4,795,098
Accumulated depreciation	(116,706)	(13,479)	(145,532)	(341,598)	(46,601)	(10,079)	-	(673,995)
Net carrying amount	933,993	26,656	474,269	1,960,908	64,549	10,171	650,557	4,121,103
Year ended 31 March 2013								
Opening net carrying amount	933,993	26,656	474,269	1,960,908	64,549	10,171	650,557	4,121,103
Additions	85,005	23,511	29,887	231,779	36,837	2,944	416,161	826,124
Acquisition of subsidiaries (note 42)	13,142	-	2,277	18,985	337	-	563	35,304
Disposals	(947)	-	(42,672)	(1,963)	(727)	-	-	(46,309)
Written off	-	-	(106)	-	(2)	-	(2)	(110)
Transfers	132,683	452	99,033	115,272	349	-	(347,789)	-
Depreciation	(44,184)	(5,219)	(48,006)	(124,267)	(19,331)	(2,189)	-	(243,196)
Exchange realignment	11,701	333	5,994	24,632	808	127	8,007	51,602
Closing net carrying amount	1,131,393	45,733	520,676	2,225,346	82,820	11,053	727,497	4,744,518
At 31 March 2013 and 1 April 2013								
Cost	1,294,009	64,597	714,243	2,695,514	146,925	23,447	727,497	5,666,232
Accumulated depreciation	(162,616)	(18,864)	(193,567)	(470,168)	(64,105)	(12,394)	-	(921,714)
Net carrying amount	1,131,393	45,733	520,676	2,225,346	82,820	11,053	727,497	4,744,518
Year ended 31 March 2014								
Opening net carrying amount	1,131,393	45,733	520,676	2,225,346	82,820	11,053	727,497	4,744,518
Additions	66,716	3,388	29,786	176,987	24,103	213	492,350	793,543
Acquisition of subsidiaries (note 42)	22,790	-	12,255	43,539	5,230	-	50,472	134,286
Disposals	(19,630)	-	(359)	(6,468)	(793)	-	(2,484)	(29,734)
Disposals of subsidiaries (note 45)	-	(7,083)	(55)	-	(941)	-	-	(8,079)
Written off	(1,221)	-	(303)	(577)	(243)	-	(621)	(2,965)
Transfers	12,840	283	18,891	105,758	38	-	(137,810)	-
Transfer from inventories	-	-	-	-	-	-	22,362	22,362
Depreciation	(52,952)	(9,051)	(62,327)	(137,969)	(24,265)	(2,266)	-	(288,830)
Exchange realignment	14,322	578	6,591	28,321	1,011	142	9,044	60,009
Closing net carrying amount	1,174,258	33,848	525,155	2,434,937	86,960	9,142	1,160,810	5,425,110
At 31 March 2014								
Cost	1,401,940	59,860	812,419	3,087,421	174,013	23,959	1,160,810	6,720,422
Accumulated depreciation	(227,682)	(26,012)	(287,264)	(652,484)	(87,053)	(14,817)	-	(1,295,312)
Net carrying amount	1,174,258	33,848	525,155	2,434,937	86,960	9,142	1,160,810	5,425,110

Notes to the Financial Statements

For the year ended 31 March 2014

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 2012			
Cost	277	4,817	5,094
Accumulated depreciation	(147)	(2,362)	(2,509)
Net carrying amount	130	2,455	2,585
Year ended 31 March 2013			
Opening net carrying amount	130	2,455	2,585
Additions	–	1,019	1,019
Disposal	–	(7)	(7)
Depreciation	(55)	(631)	(686)
Exchange realignment	–	24	24
Closing net carrying amount	75	2,860	2,935
At 31 March 2013 and 1 April 2013			
Cost	277	5,857	6,134
Accumulated depreciation	(202)	(2,997)	(3,199)
Net carrying amount	75	2,860	2,935
Year ended 31 March 2014			
Opening net carrying amount	75	2,860	2,935
Additions	–	3	3
Depreciation	(55)	(706)	(761)
Exchange realignment	–	21	21
Closing net carrying amount	20	2,178	2,198
At 31 March 2014			
Cost	277	5,877	6,154
Accumulated depreciation	(257)	(3,699)	(3,956)
Net carrying amount	20	2,178	2,198

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 2014, the Group's property, plant and equipment at the net carrying amount of HK\$296,910,000 (2013: HK\$118,029,000) 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 2014

17. PREPAID LAND LEASE PAYMENTS – GROUP

	2014 HK\$'000	2013 HK\$'000
At beginning of the year		
Cost	578,548	566,833
Accumulated amortisation	(56,767)	(39,589)
Net carrying amount	521,781	527,244
For the year ended		
Opening net carrying amount	521,781	527,244
Acquisition of subsidiaries (note 42)	10,584	–
Additions	26,978	2,928
Amortisation	(16,388)	(14,981)
Exchange realignment	6,604	6,590
Net carrying amount	549,559	521,781
At end of the year		
Cost	622,452	578,548
Accumulated amortisation	(72,893)	(56,767)
Net carrying amount	549,559	521,781

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 to long term leases.

As at 31 March 2014, the Group's prepaid land lease payments included certain land use rights with a net carrying amount of HK\$99,958,000 (2013: HK\$90,963,000) 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 advisors, there is no legal impediment for the Group to obtain these land use rights certificates.

As at 31 March 2014, the Group's prepaid land lease payments with a net carrying amount of HK\$163,881,000 (2013: HK\$92,559,000) 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 2014

18. INVESTMENT PROPERTIES – GROUP

	2014 HK\$'000	2013 HK\$'000
Carrying amount at beginning of the year	740,283	888,083
Additions	16,274	50,218
Fair value gain	48,701	149,880
Transfer to properties under development (note 25)	–	(289,320)
Disposal	–	(68,820)
Disposal of subsidiaries (note 45)	(329,114)	–
Exchange realignment	9,371	10,242
Carrying amount at end of the year	485,515	740,283

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 2049 to 2081.

As at 31 March 2014, the investment properties included certain properties with a carrying amount of HK\$10,545,000 (2013: Nil) for which the Group is still in the process of obtaining the property ownership certificates. In the opinion of the Directors, the Group has obtained the rights to use these investment properties. As confirmed by the Group's legal advisors, there is no legal impediment for the Group to obtain these property ownership certificates.

As at 31 March 2014, the Group's investment properties with a net carrying amount of HK\$52,797,000 (2013: Nil) were pledged to secure banking facilities granted to the Group (note 34(i)(e)).

Investment properties were revalued on 31 March 2014 by RHL Appraisal Limited (2013: RHL Appraisal Limited), independent firms of professional valuers on an open market basis and on the assumption that the Group sells the properties in 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.

Notes to the Financial Statements

For the year ended 31 March 2014

18. INVESTMENT PROPERTIES – GROUP (Continued)

The fair value of investment properties is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below.

	2014 HK\$'000
Opening balance (level 3 recurring fair value)	740,283
Additions	16,274
Fair value gain	48,701
Disposal of subsidiaries (note 45)	(329,114)
Exchange realignment	9,371
Closing balance (level 3 recurring fair value)	485,515

Fair value is determined by applying the direct comparison approach by making reference to the comparable sales transactions as available in the markets, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties.

Information about fair value measurements using significant unobservable inputs.

Significant unobservable inputs	Range
Market unit sale rate (per site area) taking into account of individual factors such as size, scale, nature, character, location, etc (HK\$/sq. meter)	HK\$465 to HK\$1,046

A significant increase/(decrease) in the market unit sale rate would result in a significant increase/(decrease) in fair value of the investment properties.

There were no changes to the valuation techniques during the year.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY

	2014 HK\$'000	2013 HK\$'000
Unlisted shares, at cost	1,657,168	1,160,802
Less: Provision for impairment	(627)	(627)
	1,656,541	1,160,175
Due from subsidiaries	1,505,518	1,366,518
Less: Provision for impairment	(24,212)	(24,212)
Due within one year included under current assets	1,481,306	1,342,306
Due to subsidiaries	(127,264)	(159,287)

Details of the principal subsidiaries at 31 March 2014 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	Hong Kong	2,633,333,300 shares of HK\$0.01 each	100%	–	Investment holding
Ming Hing Waterworks Engineering (PRC) Limited	BVI/Hong Kong	100 shares of US\$1 each	–	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 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	
New Prime Holdings Limited	BVI/Hong Kong	1 share of US\$1	100%	–	Investment holding
Fortune Trend Holdings Limited	Hong Kong	1 share of HK\$1	–	100%	Investment holding
Gold Tact (Hong Kong) Limited (i)	Hong Kong	1 share of HK\$1	100%	–	Investment holding
Business Decade Limited (i)	BVI/Hong Kong	1 share of US\$1	100%	–	Investment holding
New Prospect Global Limited (i)	BVI/Hong Kong	10,000 shares of US\$1 each	–	80.66%	Investment holding
Legend Target Limited (i)	Hong Kong	1 share of HK\$1	–	80.66%	Investment holding
長沙(中國水務)有限公司 ("Changsha Water")*	PRC	Registered capital of RMB200,000,000 (2013: RMB40,000,000)	–	90%	Water supply and water supply infrastructure
荊州水務集團有限公司 ("Jingzhou Water")*	PRC	Registered capital of US\$60,589,200	36.9%	14.1%	Water supply and water supply infrastructure
荊州水務鼎鑫源工程有限公司 [^]	PRC	Registered capital of RMB20,000,000	–	51%	Water supply infrastructure
荊州水務隆錦置業有限公司 [^]	PRC	Registered capital of RMB80,000,000	–	51%	Property development and investment
Jingzhou Sewage [#]	PRC	Registered capital of US\$8,200,000	100%	–	Sewage treatment
江陵銀龍水務有限公司*	PRC	Registered capital of US\$2,580,000	32.2%	67.8%	Water supply
重慶市永川區橋立水務有限公司 [#]	PRC	Registered capital of RMB200,000,000	100%	–	Water supply

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 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	
重慶僑立市政設施工程有限公司*	PRC	Registered capital of RMB5,000,000	10%	90%	Water supply infrastructure
重慶僑立管道制造有限公司 [^]	PRC	Registered capital of RMB80,000,000	–	80.44%	Trading and manufacturing of water pipelines
重慶市永川區佳和自來水有限責任公司 [^]	PRC	Registered capital of RMB3,500,000	–	90%	Water supply
重慶金駿泰展投資有限公司(i) [^]	PRC	Registered capital of RMB30,000,000	–	60%	Investment holding
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 and water supply infrastructure
Yanshan Water [#]	PRC	Registered capital of RMB18,000,000	–	100%	Water supply operation and construction
Yanshan Sewage [#]	PRC	Registered capital of US\$2,000,000	100%	–	Sewage treatment operation and construction
Fenyi Sewage*	PRC	Registered capital of RMB6,000,000	–	98%	Sewage treatment operation and construction
Wannian Sewage [#]	PRC	Registered capital of RMB13,000,000	5%	95%	Sewage treatment operation and construction
上海倍臣水務發展有限公司 [^]	PRC	Registered capital of RMB167,600,000	–	100%	Investment holding
上海銀龍股權投資有限公司 ("Shanghai Silver Dragon") [^]	PRC	Registered capital of RMB500,000,000	–	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
江河水務有限公司 [^]	PRC	Registered capital of RMB225,000,000	–	100%	Investment holding
江河港水務(常州)有限公司 ("Jianghe Water")(ii) [^]	PRC	Registered capital of RMB237,000,000	–	40%	Water supply and water supply infrastructure
北京中水建設實業有限公司 [^]	PRC	Registered capital of RMB211,350,000	–	100%	Property development and investment
北京上河元酒店有限公司 ("Beijing Shangheyuan") [^]	PRC	Registered capital of RMB171,600,000	–	100%	Property investment
海南興水城鄉供水有限公司 [^]	PRC	Registered capital of RMB15,830,000	–	56.85%	Water supply
宜豐縣銀龍水務有限公司 [*]	PRC	Registered capital of RMB52,800,000	55%	–	Water supply and water supply infrastructure
蘆溪水務有限公司 ("Luxi Water") [*]	PRC	Registered capital of RMB52,308,750	30%	30%	Water supply and water supply infrastructure
新余水務集團有限公司 ("Xinyu Water") [*]	PRC	Registered capital of RMB200,000,000	60%	–	Water supply and water supply infrastructure
新余市建和混凝土有限責任公司 ("Xinyu Jianhe") [*]	PRC	Registered capital of RMB10,000,000	– (2013: 25.90%)	80.66% (2013: 29.16%)	Manufacture and sale of concrete products
新余市渝泉水業有限責任公司 [^]	PRC	Registered capital of RMB50,000,000	–	60%	Water supply infrastructure
新余仙女湖新城旅遊開發有限公司 (formerly known as 新余仙女湖新城開發有限公司) ("Xinyu Development") [*]	PRC	Registered capital of RMB144,948,500	22.77%	39.10%	Development and infrastructure of sightseeing area

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 are as follows (Continued):

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
新余仙女湖新城房地產開發有限公司 [^]	PRC	Registered capital of RMB20,500,000	–	61.87%	Property development and investment
新余市格林園林有限公司 [^]	PRC	Registered capital of RMB10,000,000	–	60.0%	Landscape design and engineering
新余仙女湖聖祥發展有限責任公司(ii) [^]	PRC	Registered capital of RMB20,000,000	–	31.55%	Development and infrastructure of sightseeing area
新余建和檢測有限責任公司 ("Xinyu Examination") [^]	PRC	Registered capital of RMB1,000,000	–	80.66% (2013: 55.06%)	Testing of concrete related products
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 and water supply infrastructure
高安市昌西供水有限公司(i) [^]	PRC	Registered capital of RMB2,000,000	–	60%	Water supply and water supply infrastructure
高安市八景供水有限公司(i) [^]	PRC	Registered capital of RMB5,000,000	–	60%	Water supply and water supply infrastructure
分宜銀龍水務有限公司 [^]	PRC	Registered capital of RMB25,000,000	–	100%	Water supply and water supply infrastructure
廣東仁化銀龍供水有限公司*	PRC	Registered capital of RMB27,260,000	–	73%	Water supply and water supply infrastructure
河南銀龍供水有限公司 [#]	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

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 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	
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
惠州中水水務發展有限公司 ("Huizhou Water") [*]	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 [^]	PRC	Registered capital of RMB248,612,100	–	59.78%	Water supply and water supply infrastructure
惠州中水房地產有限公司 [#]	PRC	Registered capital of RMB20,000,000	–	70%	Property development
寧鄉建和建材有限公司 (Ningxiang Jianhe) [^]	PRC	Registered capital of RMB10,000,000	–	80.66% (2013: 90%)	Manufacture and sales of concrete products
寧鄉水務置業有限公司 [^]	PRC	Registered capital of RMB20,000,000	–	90%	Property investment
吉安水務集團有限公司 ("Jian Water") [^]	PRC	Registered capital of RMB120,000,000	–	70%	Water supply and water supply infrastructure
吉安市管道安裝工程有限公司 [^]	PRC	Registered capital of RMB5,000,000	–	70%	Water supply infrastructure
萍鄉水務有限公司 ("Pingxiang Water") [*]	PRC	Registered capital of RMB267,000,000	26%	25%	Water supply and water supply infrastructure

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 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	
北京江河京威水務有限公司 [^]	PRC	Registered capital of RMB10,000,000	–	70%	Water supply
吉安建和建材有限公司 ("Jian Jianhe") [^]	PRC	Registered capital of RMB10,000,000	–	68.10% (2013: 52.49%)	Manufacture and sale of concrete products
萍鄉建和建材有限公司 ("Pingxiang Jianhe")(ii) [^]	PRC	Registered capital of RMB10,000,000	–	41.14% (2013: 28.08%)	Manufacture and sale of concrete products
寧鄉縣順發建築材料有限責任公司 ("Ningxiang Shunfa") [^]	PRC	Registered capital of RMB12,000,000	–	90%	Manufacture and sale of concrete products
寧鄉渝泉市政工程有限公司 [^]	PRC	Registered capital of RMB5,000,000	–	56.70%	Water supply infrastructure
鄭州盛祥建築工程有限公司 ("Zhengzhou Shengxiang") [^]	PRC	Registered capital of RMB20,000,000	–	51%	Water supply infrastructure
博羅縣磊鑫實業有限公司 ("Boluo Leixin") [^]	PRC	Registered capital of RMB500,000	–	35.7%	Construction
廣東新晟環保投資集團有限公司 ("Guangdong Xinsheng")(i) [#]	PRC	Registered capital of RMB83,890,000	–	100%	Sewage treatment construction
廣東新星美水務有限公司(i) [^]	PRC	Registered capital of RMB11,890,000	–	100%	Sewage treatment service
Tianjin Shisheng(i) [^]	PRC	Registered capital of RMB2,000,000	–	100%	Sewage treatment operation and construction
Tianjin Zhengkun(i) [^]	PRC	Registered capital of RMB2,300,000	–	100%	Sewage treatment operation and construction

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 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	
Tianjin Zhongke(i)^	PRC	Registered capital of RMB1,000,000	–	100%	Sewage treatment operation and construction
Handan Fengfeng Jinsheng(i)^	PRC	Registered capital of RMB1,000,000	–	100%	Sewage treatment operation and construction
Handan Chengsheng(i)^	PRC	Registered capital of RMB21,000,000	–	65.68%	Sewage treatment operation and construction
運城銀龍水務有限公司(i)^	PRC	Registered capital of RMB44,747,200	–	51%	Investment holding
運城市鹽湖區舜源城鄉供排水 有限公司(“Yuncheng Water”)(i)^	PRC	Registered capital of RMB20,000,000	–	51%	Water supply and water supply infrastructure
九江彭澤銀龍水務有限公司 (“Pengze Water”)(i)*	PRC	Registered capital of RMB90,454,375	49%	11%	Water supply and water supply infrastructure
懷化銀龍水務有限公司 (“Huai Hua Water”)(i)*	PRC	Registered capital of RMB30,000,000	30%	56.55%	Water supply and water supply infrastructure
長沙市農業投資擔保有限公司(i)^	PRC	Registered capital of RMB100,000,000	–	54%	Guarantee business
長沙意峰房地產開發有限公司 (“Changsha Yifeng”)(i)^	PRC	Registered capital of RMB8,000,000	–	90%	Property development and investment

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Details of the principal subsidiaries at 31 March 2014 are as follows (Continued):

- * 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 2014
- (ii) accounted for as subsidiaries of the Group because the directors are of the opinion that the Group has the power over the investee, exposure to variable returns from the investee and the ability to use its power to affect those variable returns.

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.

Notes to the Financial Statements

For the year ended 31 March 2014

19. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

	Xinyu Water		Jingzhou Water		Jianghe Water		Jian Water		Pingxiang Water		Huizhou Water		Xinyu Development	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	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
As at 31 March														
Non-controlling interests														
percentage	40%	40%	49%	49%	60%	60%	30%	30%	49%	49%	30%	30%	38.13%	38.13%
Current assets	376,429	261,393	220,217	210,709	907,252	943,939	205,394	133,245	220,571	168,273	63,177	82,982	1,127,103	961,533
Non-current assets	792,368	790,348	835,000	764,697	157,941	118,369	401,151	357,100	355,263	323,729	319,166	319,850	164,908	164,605
Current liabilities	(445,018)	(372,552)	(293,585)	(237,777)	(593,490)	(581,807)	(131,591)	(100,979)	(97,961)	(76,043)	(240,301)	(273,342)	(686,008)	(541,625)
Non-current liabilities	(256,842)	(271,364)	(58,976)	(74,598)	(105,493)	(140,345)	(155,359)	(106,403)	(102,762)	(122,727)	-	-	(102,240)	(108,462)
Net assets	466,937	407,825	702,656	663,031	366,210	340,156	319,595	282,963	375,111	293,232	142,042	129,490	503,763	476,051
Carrying amount of non-controlling interests	186,775	163,130	344,301	324,885	219,726	204,094	95,879	84,889	183,804	143,684	42,613	38,847	192,085	181,518
For the year ended 31 March														
Revenue	123,554	116,625	123,696	128,834	254,214	261,403	70,977	64,022	53,316	65,266	112,356	105,128	-	-
Profit	33,426	91,684	50,560	36,797	63,394	47,507	33,519	35,267	21,373	15,646	19,283	14,817	22,816	8,483
Total comprehensive income	4,011	5,826	6,787	6,399	4,306	4,121	3,112	2,941	3,572	3,291	(2,300)	(2,426)	4,895	8,064
Profit allocated to non-controlling interests	13,371	36,674	24,774	18,031	38,036	28,504	10,056	10,580	10,473	7,667	5,785	4,445	8,700	3,235
Dividends paid to non-controlling interests	-	24,750	8,684	8,575	25,047	24,675	-	-	-	-	1,329	-	-	-
Cash flows from operating activities	(24,138)	43,871	29,808	57,345	158,964	241,086	(48,701)	(53,121)	(20,619)	(133,948)	(5,165)	(686)	24,944	24,006
Cash flows from investing activities	18,378	21,993	(786)	(10,381)	(9,295)	(26,011)	(1,323)	(4,149)	56,741	212	1,991	(5,872)	-	(12)
Cash flows from financing activities	26,515	(82,353)	(35,274)	(95,564)	(132,615)	(194,413)	48,360	40,461	(26,005)	92,683	(8,881)	29,362	(24,879)	(12,699)
Net cash inflows/(outflows)	20,755	(16,489)	(6,252)	(48,600)	17,054	20,662	(1,664)	(16,809)	10,117	(41,053)	(12,055)	22,804	65	11,295

Notes to the Financial Statements

For the year ended 31 March 2014

20. INTERESTS IN ASSOCIATES – GROUP

	2014 HK\$'000	2013 HK\$'000
Share of net assets	1,150,125	831,086
Goodwill	191,026	135,326
	1,341,151	966,412
Market value of listed shares	627,594	539,844

All the balances for amounts due from/(to) associates were unsecured, interest-free and repayable on demand except for the amounts due from associates with total carrying amount of HK\$53,467,000 as at 31 March 2014 which bears interest rate ranged from 7.2% to 15% per annum and repayable from 1 April 2014 to 30 December 2014 (2013: amount of HK\$71,875,000 which bears interest rate of 12% per annum and repayable from 1 April 2013 to 6 September 2013).

Particulars of the associates as at 31 March 2014 are as follow:

Name	Place of establishment/operation	Particulars of issued capital/registered 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 Islands/ PRC	Issued capital of 1,858,722,861 shares of HK\$ 0.1 each (2013: 1,808,722,861 shares of HK\$ 0.1 each)	Direct 25.26% (2013: 24.17%) Indirect 21.17% (2013: 21.75%)	46.43% (2013: 45.92%)	Property investment, property development, hotel business and property management
Mitsumaruru East Kit (Holdings) Limited ("Mitsumaruru")#	Cayman Islands/ PRC	Issued capital of 3,800,000,000 shares of HK\$ 0.1 each	Indirect 26.32% (2013: Nil)	26.32% (2013: Nil)	Design, assembly and installation of water meter, and manufacturing of digital television
梧州粵海江河水務有限公司 ("Wuzhou Yuehai")	PRC	Registered capital of RMB110,000,000	Indirect 49%	49%	Water supply
梧州市建標水表檢定中心	PRC	Registered capital of RMB100,000	Indirect 49%	49%	Water meter technology development

Notes to the Financial Statements

For the year ended 31 March 2014

20. INTERESTS IN ASSOCIATES – GROUP (Continued)

Particulars of the associates as at 31 March 2014 are as follow (Continued):

Name	Place of establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company	Group's effective interest held/ profit sharing	Principal activities
廣西梧州自來水工程有限公司	PRC	Registered capital of RMB5,000,000	Indirect 49%	49%	Water supply infrastructure
河海大學設計研究院	PRC	Registered capital of RMB50,000,000	Indirect 30%	30%	Design of water supply engineering, marine traffic engineering and irrigation engineering
南京文天工程檢測有限公司	PRC	Registered capital of RMB3,000,000	Indirect 30%	30%	Water supply infrastructure designation
河南國源水務有限公司	PRC	Registered capital of RMB300,000,000	Indirect 45%	45%	Investment, construction and operation of water conservation and hydropower related projects
北京同晟水淨化有限公司	PRC	Registered capital of RMB13,000,000	Indirect 50% (2013: Nil)	50% (2013: Nil)	Sewage treatment
新余水務置業有限責任公司 ("Xinyu Water Property") (note 45)	PRC	Registered capital of RMB20,000,000	Indirect 24% (2013: Nil)	24% (2013: Nil)	Property development and investment
新余水務物業管理有限責任公司 (note 45)	PRC	Registered capital of RMB3,000,000	Indirect 24% (2013: Nil)	24% (2013: Nil)	Property management
重慶金錦駿昌實業有限公司	PRC	Registered capital of RMB10,000,000	Indirect 24% (2013: Nil)	24% (2013: Nil)	Property development and management
西華鴻匯置業有限公司	PRC	Registered capital of RMB10,000,000	Indirect 20% (2013: Nil)	20% (2013: Nil)	Property development
杭州梁運儲運有限公司 ("Hangzhou Cargo")	PRC	Registered capital of RMB155,100,000	Indirect 49% (2013: Nil)	49% (2013: Nil)	Warehousing and storage

Notes to the Financial Statements

For the year ended 31 March 2014

20. INTERESTS IN ASSOCIATES – GROUP (Continued)

- * Water Property is listed on the Stock Exchange (Stock code: 2349) and became an associate of the Group on 25 October 2010. In the opinion of the directors, to give details of the subsidiaries of Water Property would result in particulars of excessive length.
- # Mitsumaruru is listed on the Stock Exchange (Stock code: 2358) and became an associate of the Group on 27 December 2013. In the opinion of the directors, to give details of the subsidiaries of Mitsumaruru would result in particulars of excessive length.
- ^ Associate is acquired by the Group during the year ended 31 March 2014. Excess of share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment of HK\$28,369,000 is included as income in share of results of associates during the year ended 31 March 2014.

During the year, the Group disposed of its investments in 江蘇尚源水務工程科技 and its subsidiary, 江蘇鴻基水利建設工程有限公司. The above disposal was recognised a loss on disposal of approximately HK\$562,000 in other operating expenses.

All of the above associates are accounted for using the equity method in the consolidated financial statements. The financial statements of the above associates are coterminous with those of the Group, except for Water Property and Mitsumaruru which have a financial year ending 31 December. There were no material transactions carried out by Water Property and Mitsumaruru from 1 January 2014 to 31 March 2014.

Notes to the Financial Statements

For the year ended 31 March 2014

20. INTERESTS IN ASSOCIATES – GROUP (Continued)

Summarised financial information, adjusted to reflect adjustments made by the Group when using equity method, in relation to the material associates of the Group, Water Property, Mitsumaru, Xinyu Water Property, Hangzhou Cargo and Wuzhou Yuehai are presented below:

	Water Property		Mitsumaru	Xinyu Water Property	Hangzhou Cargo	Wuzhou Yuehai	
	2013	2012	2013	2014	2014	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December/31 March							
Current assets	2,697,785	1,788,695	29,456	621,740	91,723	70,121	76,664
Non-current assets	2,421,659	2,346,305	219,802	339,876	587,049	196,047	204,917
Current liabilities	(1,739,612)	(1,314,073)	(72,669)	(618,810)	(248,432)	(56,407)	(76,310)
Non-current liabilities	(1,401,106)	(1,048,344)	(2,557)	(216,899)	(175,237)	-	-
Net assets	<u>1,978,726</u>	<u>1,772,583</u>	<u>174,032</u>	<u>125,907</u>	<u>255,103</u>	<u>209,761</u>	<u>205,271</u>
Less: Non-controlling interests	(217,878)	(154,491)	(2,970)	-	-	-	-
Net assets attributable to shareholders of the associates	<u>1,760,848</u>	<u>1,618,092</u>	<u>171,062</u>	<u>125,907</u>	<u>255,103</u>	<u>209,761</u>	<u>205,271</u>
Net assets excluding goodwill	<u>1,586,243</u>	<u>1,443,487</u>	<u>154,645</u>	<u>125,907</u>	<u>255,103</u>	<u>209,761</u>	<u>205,271</u>
Reconciliation to the Group's interest in the associate:							
Proportion of the Group's ownership	46.43%	45.92%	26.32%	40.00%	49.00%	49.00%	49.00%
Group's share of net assets of the associate, excluding goodwill	736,493	662,849	40,703	50,363	125,000	102,783	100,583
Goodwill on acquisition	130,610	134,221	59,297	-	-	1,119	1,105
Other reconciliation items	(15,909)	(16,183)	-	-	-	-	-
Carrying amount of the investment	<u>851,194</u>	<u>780,887</u>	<u>100,000</u>	<u>50,363</u>	<u>125,000</u>	<u>103,902</u>	<u>101,688</u>
Included in above accounts are:							
- Cash and cash equivalents	322,222	124,986	98,042	2,867	42	50,090	32,838
- Current financial liabilities (excluding trade and other payables)	818,483	537,474	894	440,535	248,420	45,006	64,851
- Non-current liabilities (excluding other payables and provisions)	<u>1,003,683</u>	<u>532,981</u>	<u>-</u>	<u>-</u>	<u>149,367</u>	<u>-</u>	<u>-</u>
Year ended 31 December/31 March							
Revenue	368,265	283,473	-	364	-	77,328	71,541
Profit/(loss) from operation	105,738	10,061	-	(1,007)	(1,515)	7,813	5,855
Other comprehensive income	29,319	(1,696)	-	-	-	2,600	2,497
Total comprehensive income	<u>135,057</u>	<u>8,365</u>	<u>-</u>	<u>(1,007)</u>	<u>(1,515)</u>	<u>10,413</u>	<u>8,352</u>
Dividends received from associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,902</u>	<u>1,429</u>
Included in above accounts are:							
- Depreciation and amortisation	18,545	19,146	-	399	762	12,664	12,602
- Interest income	1,418	636	-	6	-	363	185
- Interest expenses	31,358	40,268	-	-	-	-	459
- Income tax expense	<u>68,110</u>	<u>62,334</u>	<u>-</u>	<u>1,582</u>	<u>-</u>	<u>1,167</u>	<u>3,105</u>

Notes to the Financial Statements

For the year ended 31 March 2014

20. INTERESTS IN ASSOCIATES – GROUP (Continued)

The aggregated amounts of the following financial information of the Group's other associates, which are not individually material, are extracted from their financial statements:

	2014 HK\$'000	2013 HK\$'000
Profit or loss from operations	14,292	23,474
Total comprehensive income	<u>14,292</u>	<u>23,474</u>

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

Notes to the Financial Statements

For the year ended 31 March 2014

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (a))	67,263	63,670	–	–
Listed equity securities in Hong Kong, at fair value (note (b))	–	–	281,528	284,105
Unlisted equity securities outside Hong Kong, at cost (note (c))	96,553	98,276	40,032	40,032
	163,816	161,946	321,560	324,137

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 and 24 October 2011, the conversion price was adjusted to HK\$0.045 and HK\$0.3781 (after share consolidation) respectively. 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\$81,550,000 as at 1 April 2012. During the years ended 31 March 2014 and 2013, there was no disposal or conversion of the Water Property Convertible Bonds.

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 derivative financial assets.

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 rate of the debt element at 31 March 2014 is 9.372% (2013: 9.086%). The fair values of the debt element have been determined by RHL Appraisal Limited (2013: RHL Appraisal 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 (2013: RHL Appraisal Limited), an independent firm of professional valuers on Binomial model basis.

Notes to the Financial Statements

For the year ended 31 March 2014

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

Notes: (Continued)

(a) (Continued)

The major inputs used in the model are as follows:

	2014	2013
Stock price	HK\$0.60	HK\$0.65
Expected volatility	47.868%	71.490%
Risk free rate	1.10%	0.465%
Expected dividend yield	Nil	Nil

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

	Debt element – Unlisted debt securities HK\$'000	Conversion options element – Conversion options embedded in convertible bonds# HK\$'000
Net carrying amount at 1 April 2012	59,861	109,012
Change in fair value		
– charged to profit or loss	–	(5,022)
– credited to equity	3,809	–
Net carrying amount at 31 March 2013 and at 1 April 2013	63,670	103,990
Change in fair value		
– charged to profit or loss	–	(26,934)
– credited to equity	3,593	–
Net carrying amount at 31 March 2014	67,263	77,056

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

- (b) The investment of Water Property Shares is classified as available-for-sale financial assets in the statement of financial position of the Company. Fair value of the Water Property Shares is derived from quoted market price on the Stock Exchange.
- (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.

Notes to the Financial Statements

For the year ended 31 March 2014

22. GOODWILL – GROUP

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

	2014 HK\$'000	2013 HK\$'000
At beginning of the year		
Gross carrying amount	185,775	181,272
Accumulated impairment	–	–
Net carrying amount	185,775	181,272
For the year ended		
Net carrying amount at beginning of year	185,775	181,272
Acquisition of subsidiaries (note 42)	56,950	2,238
Written off (note)	(2,986)	–
Exchange realignment	2,313	2,265
Net carrying amount at end of year	242,052	185,775
At end of the year		
Gross carrying amount	242,052	185,775
Accumulated impairment	–	–
Net carrying amount	242,052	185,775

Note:

At 31 March 2014, a Group's entity is in the process of deregistration. In the opinion of the Directors, the relevant goodwill of carrying amount of HK\$2,986,000 was written off in the current year.

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 units ("water supply CGUs") within city water supply operation and construction segment;
- sewage treatment cash-generating units ("sewage treatment CGUs") within sewage treatment operation and construction segment; and
- other cash-generating units ("other CGUs").

Notes to the Financial Statements

For the year ended 31 March 2014

22. GOODWILL – GROUP (Continued)

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

	Water supply CGUs	Sewage treatment CGUs	Other CGUs	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 31 March 2014	182,843	56,950	2,259	242,052
Carrying amount at 31 March 2013	180,558	–	5,217	185,775

The recoverable amounts for the water supply CGUs 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% to 4% (2013: 3% to 4%) and discount rate of 11% to 12.7% (2013: 11% to 12.7%) estimated by the management.

The recoverable amounts for the sewage treatment CGUs 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% and discount rate of 10% estimated by the management.

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.

Notes to the Financial Statements

For the year ended 31 March 2014

23. OTHER INTANGIBLE ASSETS – GROUP

	Sewage treatment concession rights (note a)		Water supply concession rights (note b)		Total	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
At beginning of the year						
Cost	162,500	160,494	76,274	73,822	238,774	234,316
Accumulated amortisation	(39,000)	(32,099)	(12,018)	(9,275)	(51,018)	(41,374)
Net carrying amount	123,500	128,395	64,256	64,547	187,756	192,942
For the year ended						
Opening net carrying value	123,500	128,395	64,256	64,547	187,756	192,942
Additions	–	–	1,069	1,445	1,069	1,445
Amortisation	(6,582)	(6,500)	(2,705)	(2,627)	(9,287)	(9,127)
Exchange realignment	1,563	1,605	898	891	2,461	2,496
Net carrying amount	118,481	123,500	63,518	64,256	181,999	187,756
At end of the year						
Cost	164,557	162,500	78,358	76,274	242,915	238,774
Accumulated amortisation	(46,076)	(39,000)	(14,840)	(12,018)	(60,916)	(51,018)
Net carrying amount	118,481	123,500	63,518	64,256	181,999	187,756

Notes:

- (a) Pursuant to several agreements between a wholly-owned subsidiary of the Company, namely Jingzhou Sewage and a relevant authority in the PRC, namely 荆州市建設委員會, during the year ended 31 March 2007, Jingzhou Sewage 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. Jingzhou Sewage 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 2014 and 2013, 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)(f)).

- (b) Pursuant to a concession agreement between a wholly-owned subsidiary of the Company, namely Yanshan Water and a relevant authority in the PRC, namely 鉛山縣建設局, during the year ended 31 March 2008, Yanshan Water 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 on a TOT basis. Yanshan Water 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 2014 and 2013, the entire water supply concession rights were pledged as security for banking facilities granted to the Group (note 34(i)(f)).

Notes to the Financial Statements

For the year ended 31 March 2014

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

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Non-current					
Deposits for acquisition of equity securities	(i)	82,279	76,000	–	10,000
Other deposits	(ii)	74,534	97,567	–	–
		156,813	173,567	–	10,000
Prepayments and other receivables	(iii)	31,805	33,817	–	–
		188,618	207,384	–	10,000
Current					
Loan receivables	(iv)	–	100,000	–	–
Prepayments		208,397	191,638	8,861	30,913
Deposits		5,644	1,933	300	296
Other receivables	(v)	520,440	376,943	13,344	5,880
		734,481	670,514	22,505	37,089

Notes:

- (i) As at 31 March 2014, the deposit for acquisition of equity securities represented the followings:
- An amount of HK\$9,873,000 represented deposit paid by the Group in relation to the acquisition of 51% equity interest in 上饒東方首府項目 brought forward from last year, which is a property development project in Jiangxi in the PRC. As at the date of this report, the project is still under negotiation.
 - An amount of HK\$72,406,000 represented deposits paid by the Group in relation to the acquisition of 24% equity interest in 杭州普天房地產開發有限公司, which is a PRC subsidiary of Water Property and principally engaged in property development industry in PRC.

As at 31 March 2013, the deposits for acquisition of equity securities comprised the followings:

- An amount of HK\$50,000,000 represented the deposit paid by the Group in relation to acquisition of entire equity interest in Changsha Yifeng which is a company incorporated in the PRC and principally engaged in property development and investment.
- An amount of HK\$10,000,000 represented the deposit paid by the Group in relation to acquisition of 6.9% equity interest in Xinyu Development which is a company incorporated in the PRC and principally engaged in development and infrastructure of sightseeing area.

Notes to the Financial Statements

For the year ended 31 March 2014

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

Notes (Continued):

- (i) (Continued)
- (e) An amount of HK\$9,750,000 represented deposit paid by the Group in relation to the acquisition of 51% equity interest in 上饒東方首府項目 as mentioned in note (a) above.
- (f) An amount of HK\$6,250,000 represented the deposit paid by the Group in relation to the acquisition of certain equity interest in Hangzhou Cargo which is a company incorporated in the PRC and principally engaged in storage of fuel oil and petrochemical materials and sales of construction materials in PRC.
- (ii) As at 31 March 2014 and 2013, balances mainly represented deposits paid for acquisition of land use rights for the Group's business expansion.
- (iii) As at 31 March 2014 and 2013, the amount mainly represented the Group's prepaid rental of land situated in the PRC and prepayment for construction work for own use.
- (iv) On 1 December 2010, (i) the Group as the lender and Mitsumaru as the borrower entered into a loan agreement and pursuant to which the Group agreed to make available to 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 ("Long Stop Date") (the Long Stop Date was amended to 30 June 2014 in accordance with the terms stated in a supplementary agreement to the Subscription Agreement dated on 30 October 2013), the subscription price is to be satisfied by way of offsetting against the sums owed by Mitsumaru to the Group under the Mitsumaru Loan Agreement.
- On 27 December 2013, the conditions precedent of the Subscription Agreement were fulfilled and Mitsumaru issued the Subscription Shares to the Group. Upon the issuance of Subscription Shares, the loan receivable was settled and Mitsumaru became an associate of the Group. The principal activity and details of the Group's share holding in Mitsumaru are set out in note 20 to the consolidated financial statements.
- (v) As at 31 March 2014, the balance includes receivables from customers for sewage related and miscellaneous charges; receivables from certain government authorities for funds advancements, expenses paid on behalf and other charges; and various other receivables. Except for a receivable of HK\$9,000,000 (2013: HK\$9,000,000) which bear interest of 7% per annum and repayable on or before 31 December 2014, the balances were unsecured, interest-free and repayable on demand.

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

The Directors 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

For the year ended 31 March 2014

25. PROPERTIES UNDER DEVELOPMENT – GROUP

	2014 HK\$'000	2013 HK\$'000
At cost		
At beginning of the year	803,542	493,698
Additions	293,616	146,433
Transfer to properties held for sale (note 26)	(48,269)	(132,087)
Transfer from investment properties (note 18)	–	289,320
Disposals	(200,568)	–
Disposal of subsidiaries (note 45)	(261,888)	–
Exchange realignment	10,217	6,178
	<u>596,650</u>	<u>803,542</u>

The Group's properties under development are located in the PRC on leasehold land with lease terms expiring from year 2049 to 2051.

As at 31 March 2014, the Group's properties under development with carrying amount of approximately HK\$59,335,000 (2013: Nil) were pledged to secure banking facilities granted to the Group (note 34(i)(g)).

26. PROPERTIES HELD FOR SALE – GROUP

	2014 HK\$'000	2013 HK\$'000
At cost		
At beginning of the year	75,605	55,162
Additions	24,773	4,349
Transfer from properties under development (note 25)	48,269	132,087
Sales for the year	(41,573)	(116,737)
Disposal of subsidiaries (note 45)	(70,110)	–
Exchange realignment	957	744
	<u>37,921</u>	<u>75,605</u>

Properties held for sale included leasehold interests in land located in the PRC with lease terms expiring from 2043 to 2077.

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

Notes to the Financial Statements

For the year ended 31 March 2014

27. INVENTORIES – GROUP

	2014 HK\$'000	2013 HK\$'000
Raw materials and supplies	124,258	107,856
Work-in-progress	99,449	59,967
Finished goods	24,862	23,540
	<u>248,569</u>	<u>191,363</u>

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

28. TRADE AND BILLS RECEIVABLES – GROUP

	2014 HK\$'000	2013 HK\$'000
Trade receivables	558,743	522,907
Bills receivables	18,867	7,478
	<u>577,610</u>	<u>530,385</u>

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

	2014 HK\$'000	2013 HK\$'000
0 to 90 days	253,967	202,771
91 to 180 days	73,189	117,129
Over 180 days	250,454	210,485
	<u>577,610</u>	<u>530,385</u>

Notes to the Financial Statements

For the year ended 31 March 2014

28. TRADE AND BILLS RECEIVABLES – GROUP (Continued)

Ageing analysis of the Group's trade and bills receivables that were not impaired is as follows:

	2014 HK\$'000	2013 HK\$'000
Neither past due nor impaired	342,369	323,839
1 to 90 days past due	74,285	70,562
91 to 180 days past due	48,202	50,954
Over 180 days past due	112,754	85,030
	577,610	530,385

As at 31 March 2014, the Group's trade receivables included an amount of approximately HK\$49,574,000 (2013: HK\$48,955,000) relating to the trade receivables of construction contracts.

Trade receivables that were past due but not impaired relate to customers that have good track record with the Group. 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 and bills receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

29. AMOUNTS DUE FROM GRANTORS FOR CONTRACT WORK – GROUP

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

Amounts due from grantors for contract work represented revenue from construction services under BOT arrangements and bear interest at rate of 4.1% to 5.9% (2013: 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.

Notes to the Financial Statements

For the year ended 31 March 2014

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

	2014 HK\$'000	2013 HK\$'000
Listed equity securities, at market value:		
– PRC	<u>1,303</u>	<u>1,447</u>

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.

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Cash at banks/other financial institutions and in hand	1,412,320	859,141	215,573	70,886
Short-term deposits	357,005	108,690	357,004	74,773
	1,769,325	967,831	572,577	145,659
Deposit pledged against banking facilities granted to mortgagees	(20,535)	(7,403)	–	–
Deposit pledged for bank loans granted to independent third parties	(113,076)	–	–	–
Deposit pledged for bank loan (note 34(i)(h))	(6,329)	(6,250)	–	–
Deposit pledged for bills payables (note 32)	(39,260)	(36,032)	–	–
	(179,200)	(49,685)	–	–
Deposits and cash as stated in the statement of financial position	1,590,125	918,146	572,577	145,659
Cash and cash equivalents for the presentation of the statement of cash flows	1,590,125	918,146	572,577	145,659

Notes to the Financial Statements

For the year ended 31 March 2014

31. DEPOSITS AND CASH AND PLEDGED DEPOSITS – GROUP AND COMPANY (Continued)

Cash at banks/other financial institutions earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for one day to three months (2013: fifteen days to three months) depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates of 0.6% to 2.61% (2013: 0.5% to 2.3%) per annum.

The Directors considered that the fair values of the cash at banks/other financial institutions 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 2014, the Group had deposits and cash denominated in Renminbi (“RMB”) amounting to approximately HK\$1,044,018,000 (2013: HK\$787,113,000), which were deposited with banks/other financial institutions in the PRC or held in hand. The RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

32. TRADE AND BILLS PAYABLES – GROUP

	2014 HK\$'000	2013 HK\$'000
Trade payables	425,259	477,407
Bills payables	103,764	52,761
	529,023	530,168

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

	2014 HK\$'000	2013 HK\$'000
0 to 90 days	229,682	201,233
91 to 180 days	94,844	96,293
Over 180 days	204,497	232,642
	529,023	530,168

As at 31 March 2014, the bills payables of HK\$103,764,000 (2013: HK\$52,761,000) were secured by the pledged bank deposits of HK\$39,260,000 (2013: HK\$36,032,000) (note 31).

Notes to the Financial Statements

For the year ended 31 March 2014

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

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Non-current					
Deposits received		38,911	9,658	–	–
Current					
Accrued liabilities		47,442	44,569	23,946	12,913
Deposits received	(i)	660,195	799,796	–	–
Other payables	(ii)	813,370	952,991	34,400	20,933
		1,521,007	1,797,356	58,346	33,846

Notes:

- (i) Deposits received mainly included the followings:
- (a) Deposits from customers of HK\$479,466,000 (2013: HK\$361,891,000) in respect of the Group's city water supply operation and construction businesses.
 - (b) Deposits from customers of HK\$119,694,000 (2013: HK\$303,141,000) in respect of the Group's property development and investment businesses.
- (ii) Other payables mainly included water supply and sewage treatment fees received on behalf of certain government authorities in the PRC in respect of the Group's city water supply operation and construction businesses; and payables for other PRC tax surcharges and construction costs.

Notes to the Financial Statements

For the year ended 31 March 2014

34. BORROWINGS – GROUP AND COMPANY

GROUP	Notes	Original currency	2014 HK\$'000	2013 HK\$'000
Current				
Bank loans – unsecured	(ii), (iv)	RMB	20,693	16,875
Bank loans – secured	(i), (ii)	RMB	863,661	485,991
Bank loans – unsecured	(ii), (iv)	USD	227,387	–
Bank loans – unsecured	(ii)	HK\$	33,333	–
Other loans – unsecured	(iii)	RMB	55,357	22,563
Other loans – secured	(i), (iii)	RMB	–	28,750
Other loans – secured	(iii),(iv)	USD	54,454	54,410
Government loans – unsecured	(v)	RMB	44,396	44,531
			1,299,281	653,120
Non-current				
Bank loans – unsecured	(ii), (iv)	RMB	280,572	297,500
Bank loans – secured	(i), (ii)	RMB	1,054,463	1,026,775
Bank loans – unsecured	(ii), (iv)	USD	1,850,949	533,528
Bank loans – unsecured	(ii)	HK\$	41,667	–
Other loans – unsecured	(iii)	RMB	5,491	5,300
Other loans – secured	(i), (iii)	RMB	38,419	51,689
Other loans – secured	(iii),(iv)	USD	–	54,275
Government loans – unsecured	(v)	RMB	88,484	106,569
			3,360,045	2,075,636
			4,659,326	2,728,756

Notes to the Financial Statements

For the year ended 31 March 2014

34. BORROWINGS – GROUP AND COMPANY (Continued)

GROUP	2014 HK\$'000	2013 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,145,074	502,866
In the second year	709,505	365,384
In the third to fifth years, inclusive	2,003,370	970,051
Beyond five years	514,776	522,368
	4,372,725	2,360,669
Other loans repayable:		
Within one year or on demand	109,811	105,723
In the second year	41,884	69,088
In the third to fifth years, inclusive	2,026	40,176
Beyond five years	–	2,000
	153,721	216,987
Government loans repayable:		
Within one year or on demand	44,396	44,531
In the second year	27,731	24,713
In the third to fifth years, inclusive	33,649	40,681
Beyond five years	27,104	41,175
	132,880	151,100

Notes to the Financial Statements

For the year ended 31 March 2014

34. BORROWINGS – GROUP AND COMPANY (Continued)

COMPANY	Notes	Original currency	2014 HK\$'000	2013 HK\$'000
Current				
Bank loans – unsecured	(ii)	HK\$	33,333	–
Bank loans – unsecured	(ii), (iv)	USD	227,387	–
			260,720	–
Non-current				
Bank loans – unsecured	(ii)	HK\$	41,667	–
Bank loans – unsecured	(ii), (iv)	USD	1,850,948	533,528
			1,892,615	533,528
Analysed into:				
Bank loans repayable:				
Within one year or on demand			260,720	–
In the second year			398,865	41,312
In the third to fifth years, inclusive			1,183,873	242,180
Beyond five years			309,877	250,036
			2,153,335	533,528

Notes:

- (i) The Group's bank loans and other loans at 31 March 2014 and 2013 were secured by:
- pledge of water and sewage treatment revenue of certain subsidiaries;
 - guarantees by 鄭州國瑞房地產開發有限公司, 常州市武進供水總公司, 常州市武進天龍設備安裝工程有限公司 and 上栗縣嘉和投資有限公司 as at 31 March 2014 and 高安市國有資產營運有限責任公司, 常州市武進供水總公司 and 常州市武進天龍設備安裝工程有限公司 as at 31 March 2013;
 - charges over property, plant and equipment in which their aggregate carrying amounts as at 31 March 2014 was HK\$296,910,000 (2013: HK\$118,029,000) (note 16);
 - charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2014 was HK\$163,881,000 (2013: HK\$92,559,000) (note 17);
 - charges over investment properties in which their aggregate carrying amounts as at 31 March 2014 was HK\$52,797,000 (2013: Nil) (note 18);
 - charges over other intangible assets in which their aggregate carrying amounts as at 31 March 2014 was HK\$181,999,000 (2013: HK\$187,756,000) (note 23);
 - charges over the properties under development in which their aggregate carrying amounts as at 31 March 2014 was HK\$59,335,000 (2013: Nil) (note 25); and
 - charges over the bank deposits in amount of HK\$6,329,000 as at 31 March 2014 (2013: HK\$6,250,000) (note 31).

Notes to the Financial Statements

For the year ended 31 March 2014

34. BORROWINGS – GROUP AND COMPANY (Continued)

Notes (Continued):

- (ii) The effective interest rates of the Group's bank loans ranged from 2.57% to 11.69% (2013: 5.94% to 9.36%) per annum at 31 March 2014.
- (iii) The effective interest rates of the Group's other loans ranged from 1.72% to 7.05% (2013: 1.72% to 7.05%) per annum at 31 March 2014.
- (iv) (a) 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”). The facility of US\$36 million was fully utilised (the “DEG and FMO Loan”). The DEG and FMO Loan bears floating rate of 2.10% per annum above the London Inter-Bank Offer Rates. The 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 2014, certain provisions of the Amended DEG Loan Agreement were breached which could cause the DEG and FMO Loan becomes payable on demand. The Group has been granted the waiver in respect of the breached provisions on or before 31 March 2014.

- (b) On 8 July 2011, the Company and its subsidiary, Shanghai Silver Dragon, entered into a term facility agreement (“ADB Loan Agreement”) with Asian Development Bank (“ADB”) for a loan facility (the “ADB Loan”) of up to US\$100 million. ADB Loan Agreement was further amended and restated on 1 February 2013 for another US\$100 million (the “Amended ADB Loan Agreement”). The ADB Loan Agreement was further amended on 6 March 2014. Pursuant to the Amended ADB Loan Agreement, at any time prior to the third anniversary to the Amended ADB Loan Agreement, ADB may, upon giving ninety days' prior written notice to the Company, demand and the Company shall prepay on the third anniversary of the Amended ADB Loan Agreement the portion of the ADB Loan notified to it by ADB. The facility of US\$100 million under the ADB Loan and US\$100 million under the Amended ADB Loan Agreement were fully utilised.

The ADB Loan bears floating rate of 1.875% per annum above the London inter-bank offer rates for borrowings denominated in USD and 1.875% per annum above the Shanghai inter-bank offer rates for borrowings denominated in RMB under the ADB Loan Agreement and bears floating rate of 2.9% per annum above the London inter-bank offer rates for borrowings denominated in USD under the Amended ADB Loan Agreement.

During the year ended 31 March 2014, certain provisions of the ADB Loan Agreement and the Amended ADB Loan Agreement were breached which could cause the ADB Loan becomes payable on demand. The Group has been granted the waiver in respect of the breached provisions before 31 March 2014.

Notes to the Financial Statements

For the year ended 31 March 2014

34. BORROWINGS – GROUP AND COMPANY (Continued)

Notes (Continued):

- (c) On 3 April 2013, the Company entered into a credit facility with The Royal Bank of Scotland Plc (the “RBS Loan Agreement”) for a loan facility of up to US\$90 million (the “RBS Loan”). The facility of US\$90 million under the RBS Loan was fully utilised as at 31 March 2014. The RBS Loan bears floating rate of 2.9% per annum above the London inter-bank offer rates.

During the year ended 31 March 2014, certain provisions of the RBS Loan Agreement were breached which could cause the RBS Loan becomes payable on demand. The Group has been granted the waiver in respect of the breached provisions before 31 March 2014.

- (v) The government loans bore interests at effective interest rates ranging from 1.95% to 6.55% (2013: 1.95% to 6.88%) per annum at 31 March 2014.

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

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\$13,154,000 (2013: HK\$21,740,000) as at 31 March 2014 which bears interest rate of 6.7% (2013: 6.7%) per annum and repayable on or before 30 June 2015; (b) the amount due to non-controlling equity holder of subsidiary with carrying amount of HK\$6,329,000 (2013: Nil) as at 31 March 2014 which bears interest rate of 15% (2013: Nil) per annum and repayable on demand; and (c) the amount due from non-controlling equity holder of subsidiary with carrying amount of HK\$108,860,000 (2013: HK\$150,000,000) as at 31 March 2014 which bears interest rate of 10% (2013: 10%) per annum and repayable on or before 31 March 2015 (2013: 31 March 2014).

Notes to the Financial Statements

For the year ended 31 March 2014

36. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL LIABILITIES – GROUP AND COMPANY

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

	HK\$'000
Liability component	
Net carrying amounts at 1 April 2012	536,015
Arising from repurchases	(65,053)
Interest expenses	39,594
Interest on convertible bonds paid	(13,718)
Net carrying amounts at 31 March 2013 and at 1 April 2013	496,838
Arising from repurchases	(338,754)
Interest expenses	13,518
Interest on convertible bonds paid	(8,141)
Net carrying amounts at 31 March 2014	163,461

	2014 HK\$'000	2013 HK\$'000
Current portion	–	300,197
Non-current portion	163,461	196,641
	163,461	496,838

	HK\$'000
Derivative component-classified as current liabilities	
Net carrying amounts at 1 April 2012	37,960
Arising from repurchases	(3,507)
Change in fair value of derivative financial instruments	(19,940)
Net carrying amounts at 31 March 2013 and at 1 April 2013	14,513
Arising from repurchases	(8,784)
Change in fair value of derivative financial instruments	(753)
Net carrying amounts at 31 March 2014	4,976

Notes to the Financial Statements

For the year ended 31 March 2014

36. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL LIABILITIES – GROUP AND COMPANY (Continued)

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 “Convertible Bonds”) at 2.5% coupon rate per annum with maturity on 15 April 2015. The 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 “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 Conversion Price on 15 April 2011, the Conversion Price shall be reset to the Average Market Price (the “Conversion Price Reset”) provided that the Conversion Price shall not be reduced on 15 April 2011 to below HK\$3.15. On 17 September 2010, 16 December 2010, 15 April 2011, 6 September 2011, 12 September 2012 and 17 September 2013, the Convertible Price was reset to HK\$3.96, HK\$3.93, HK\$3.10, HK\$3.07, HK\$2.99 and HK\$2.93 respectively. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Conversion Bonds at 120.06 per cent of its principal amount on 15 April 2015.

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

On or after 15 April 2013, the Company may redeem all or some of the 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 Conversion Price on such trading day.

On 15 April 2013, the bondholders of the Convertible Bonds will have the right at such holders’ option, to require the Company to redeem all or some of the Convertible Bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013. To exercise such right, the holder of the Convertible Bonds must provide to the Company a redemption notice (“Redemption Notice”) not less than 15 days nor more than 60 days before 15 April 2013.

As of 31 March 2013, the Company received Redemption Notice of principal amount of HK\$286,700,000. Carrying amount of Convertible Bonds of HK\$300,197,000 was therefore classified as current liability. The redemption pursuant to the Redemption Notice was completed on 15 April 2013.

In addition to the above, during the year ended 31 March 2014, the Company repurchased Convertible Bonds in principal amount of HK\$26,000,000 (2013: HK\$61,000,000) at an aggregate amount of HK\$29,758,000 (2013: HK\$67,530,000). After completion of the above redemption and repurchase, the outstanding principal amount of the Convertible Bond is HK\$161,800,000 (2013: HK\$474,500,000). The Group recognised a loss on redemption and repurchase of the Convertible Bonds of HK\$1,441,000 (2013: gain on repurchase of HK\$882,000) (after bank charges) during the year ended 31 March 2014.

Notes to the Financial Statements

For the year ended 31 March 2014

36. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL LIABILITIES – GROUP AND COMPANY (Continued)

The Group determined that the above 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.

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

	2014	2013
Stock price	HK\$2.46	HK\$2.35
Expected volatility	41.466%	32.788%
Risk free rate	0.211%	0.186%

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 2014 results in a fair value gain of HK\$753,000 (2013: gain of HK\$19,940,000) which has been included in the "Change in fair value of derivative financial instruments" in the consolidated income statement for the year ended 31 March 2014.

Interest expenses are calculated using the effective interest method by apply the effective interest rate of 7.51% (2013: 7.51%) to the adjusted liability component.

37. DEFERRED GOVERNMENT GRANTS – GROUP

	2014 HK\$'000	2013 HK\$'000
At beginning of the year	52,296	54,522
Additions during the year	35,306	–
Amortisation during the year (note 7)	(2,943)	(2,907)
Exchange realignment	662	681
At end of the year	85,321	52,296

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

Notes to the Financial Statements

For the year ended 31 March 2014

38. DEFERRED TAX LIABILITIES – GROUP

Deferred tax liabilities are calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2013: 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 acquisition of subsidiaries HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2012	2,108	26,851	209,865	238,824
Charged to profit or loss (note 11)	–	–	65,725	65,725
Exchange realignment	26	341	2,620	2,987
At 31 March 2013 and 1 April 2013	2,134	27,192	278,210	307,536
(Credited)/Charged to profit or loss (note 11)	(4,538)	–	24,685	20,147
Acquisition of subsidiaries	7,071	886	–	7,957
Disposal of subsidiaries (note 45)	–	–	(161,350)	(161,350)
Exchange realignment	27	350	3,515	3,892
At 31 March 2014	4,694	28,428	145,060	178,182

Notes to the Financial Statements

For the year ended 31 March 2014

39. SHARE CAPITAL

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each At 31 March 2013 and 2014	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$ 0.01 each At 1 April 2012	1,452,082	14,521
Repurchased and cancelled	(9,052)	(91)
At 31 March 2013 and 1 April 2013 Repurchased and cancelled	1,443,030 (38,120)	14,430 (381)
At 31 March 2014	1,404,910	14,049

Note: During the years ended 31 March 2014 and 2013, the Company repurchased a total of 38,120,000 and 9,052,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$111,262,000 and HK\$20,929,000 respectively. The highest price paid and the lowest price paid were HK\$3.15 and HK\$2.64 for the year ended 31 March 2014, and HK\$2.47 and HK\$1.85 for the year ended 31 March 2013 respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

Notes to the Financial Statements

For the year ended 31 March 2014

40. SHARE OPTION SCHEME

The Company has adopted the new share option scheme (the "New Scheme") on 7 September 2012. The purpose of the New Scheme is to reward participants who have contributed to the Group and to provide incentives to participants to work towards the success of the Company. Eligible participants of the New Scheme include (a) any full-time or part-time employee of any member of the Group or invested entity; (b) any consultant or adviser of any member of the Group or invested entity; (c) any director (including executive, non-executive or independent nonexecutive directors) of any member of the Group or invested entity; (d) any shareholder of any member of the Group or invested entity; or (e) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of the Group or invested entity. The New Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted.

An offer of the grant of an option under the New Scheme (the "Option") may be accepted within 28 days from the date of grant together with a remittance of HK\$1.00 by way of consideration for the grant thereof. An Option may be exercised during such period as the board of directors may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of grant.

The exercise price of the Option shall be determined at the discretion of the board of directors which shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares. There is no minimum holding period before an Option is exercisable.

As at 31 March 2014 and 2013, no share option is granted and exercised under the New Scheme.

The Company operated a share option scheme (the "Old 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 Old 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 holder in the Company's subsidiaries. The Old Scheme became effective on 6 September 2002 had expired during the year ended 31 March 2013 and no share option was outstanding.

Notes to the Financial Statements

For the year ended 31 March 2014

41. RESERVES

(a) Group

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

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

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.

Other reserves represent (i) 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; and (ii) share of other reserve of associates.

The share options reserves represent share of 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 2014

41. RESERVES (Continued)

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2012	438,701	1,168,005	2,035	42,097	(1,676)	27,433	1,676,595
Share repurchase (note 39)	(20,838)	-	-	-	-	-	(20,838)
Share repurchase expenses	(90)	-	-	-	-	-	(90)
Final dividend 2012 (note 13)	-	18	-	-	-	-	18
Interim dividend 2013 (note 13)	-	(29,029)	-	-	-	-	(29,029)
Transactions with owners	(20,928)	(29,011)	-	-	-	-	(49,939)
Proposed final dividend 2013 (note 13)	-	(43,291)	-	-	-	-	(43,291)
Transfer to capital redemption reserve	-	-	91	-	-	(91)	-
Profit for the year	-	-	-	-	-	133,911	133,911
Other comprehensive income							
- Change in fair value of available-for-sale financial assets	-	-	-	9,478	-	-	9,478
- Currency translation	-	-	-	-	(190)	-	(190)
Total comprehensive income for the year	-	-	-	9,478	(190)	133,911	143,199
Balance at 31 March 2013 and 1 April 2013	417,773	1,095,703	2,126	51,575	(1,866)	161,253	1,726,564
Share repurchase (note 39)	(110,881)	-	-	-	-	-	(110,881)
Share repurchase expenses	(465)	-	-	-	-	-	(465)
Final dividend 2013 (note 13)	-	379	-	-	-	-	379
Interim dividend 2014 (note 13)	-	(28,099)	-	-	-	-	(28,099)
Transactions with owners	(111,346)	(27,720)	-	-	-	-	(139,066)
Proposed final dividend 2014 (note 13)	-	(42,147)	-	-	-	-	(42,147)
Transfer to capital redemption reserve	-	-	381	-	-	(381)	-
Loss for the year	-	-	-	-	-	(28,986)	(28,986)
Other comprehensive income							
- Change in fair value of available-for-sale financial assets	-	-	-	(23,056)	-	-	(23,056)
- Currency translation	-	-	-	-	(204)	-	(204)
Total comprehensive income for the year	-	-	-	(23,056)	(204)	(28,986)	(52,246)
Balance at 31 March 2014	306,427	1,025,836	2,507	28,519	(2,070)	131,886	1,493,105

Notes to the Financial Statements

For the year ended 31 March 2014

41. RESERVES (Continued)

(b) Company (Continued)

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

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 accounts.

42. BUSINESS COMBINATIONS

- (a) On 12 September 2013, the Group entered into an agreement with 彭澤縣自來水公司 ("Pengze County Water Company"), that the Group and Pengze County Water Company shall establish a new company, Pengze Water, to run a water supply business. The Group shall contribute 60% registered capital of Pengze Water by way of cash (RMB54,273,000) and Pengze County Water Company shall contribute the remaining 40% interest of Pengze Water by way of assets and the water supply business in Pengze County Water Company. The above transaction was completed on 25 November 2013.

The transaction 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 Pengze Water at the non-controlling interests' proportionate share of Pengze Water's identifiable net assets.

The transaction was treated by the management as business combination without the transfer of consideration because the cash contribution from the Group to Pengze Water remained under the Group's control, and no goodwill was resulted.

The assets arising from the business combination are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	42,492	42,492
Prepaid land lease payments	3,308	3,308
Non-controlling interests	(45,800)	(45,800)
Net assets attributed to the Group acquired	—	—

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

(a) (Continued)

Since its acquisition, Pengze Water contributed revenue of HK\$7,190,000 and net loss of HK\$946,000 to the Group for the period from 25 November 2013 to 31 March 2014.

Had the combination taken place on 1 April 2013, the revenue and the net profit of the Group for the year ended 31 March 2014 would have been HK\$2,760,057,000 and HK\$555,778,000 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 2013, nor are they intended to be a projection of future results.

The acquisition-related costs expensed in the acquisitions were not material, and they had been expensed and were included in administrative expenses.

(b) On 1 September 2013, the Group entered into an agreement with 運城市鹽湖區人民政府 (“Yuncheng Government”), that the Group and Yuncheng Government shall establish a new company, Yuncheng Water, to run a water supply business. The Group shall contribute 51% registered capital of Yuncheng Water by way of cash (RMB21,926,100) and Yuncheng Government shall contribute the remaining 49% interest of Yuncheng Water by way of assets and the water supply business in Yuncheng Water. The above transaction was completed on 2 January 2014.

The transaction 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 Yuncheng Water at the non-controlling interests' proportionate share of Yuncheng Water's identifiable net assets.

The transaction was treated by the management as business combination without the transfer of consideration because the cash contribution from the Group to Yuncheng Water remained under the Group's control, and no goodwill was resulted.

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

(b) (Continued)

The assets and liabilities arising from the business combination are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	58,137	58,137
Prepaid land lease payments	5,372	1,829
Inventories	541	541
Trade receivables	34	34
Prepayments, deposits and other receivables	3,233	3,233
Bank and cash balances	1,283	1,283
Trade payables	(5,062)	(5,062)
Accrued liabilities and other payables	(21,842)	(21,812)
Due to non-controlling interests	(4,739)	(4,739)
Borrowings	(8,316)	(8,316)
Deferred tax liabilities	(886)	–
Non-controlling interests	(27,755)	(25,128)
Net assets attributed to the Group acquired	–	–
Bank and cash balances acquired and net inflow		1,283

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

Since its acquisition, Yuncheng Water contributed revenue of HK\$5,661,000 and net loss of HK\$1,212,000 to the Group for the period from 2 January 2014 to 31 March 2014.

Had the combination taken place on 1 April 2013, the revenue and the net profit of the Group for the year ended 31 March 2014 would have been HK\$2,764,138,000 and HK\$553,794,000 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 2013, nor are they intended to be a projection of future results.

The acquisition-related costs expensed in the acquisitions were not material, and they had been expensed and were included in administrative expenses.

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

- (c) On 14 August 2013, the Group acquired the mine ("Mine") and its mining right at a consideration of RMB4,900,000 (equivalent to HK\$6,202,000). The above transaction was completed on 20 September 2013.

The assets arising from the business combination are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	4,298	4,298
Prepaid land lease payments	1,904	–
Net assets attributed to the Group acquired	<u>6,202</u>	<u>4,298</u>
Cash consideration and net outflow		<u>(6,202)</u>

Since its acquisition, the Mine contributed revenue of HK\$1,287,000 and net loss of HK\$205,000 to the Group for the period from 20 September 2013 to 31 March 2014.

The acquisition was not material to the Group and pro forma information as if the acquisition had taken place at the beginning of the year has not been presented.

The acquisition-related costs expensed in the acquisitions were not material, and they had been expensed and were included in administrative expenses.

- (d) On 29 July 2013, the Group entered into an agreement with 新晃侗族自治縣自來水公司 ("Xinhuang Water Company"), that the Group and Xinhuang Water Company shall establish a new company, Huai Hua Water, to run a water supply business. The Group shall contribute 86.55% registered capital of Huai Hua Water by way of cash (RMB25,965,000) and Xinhuang Water Company shall contribute the remaining 13.45% interest of Huai Hua Water by way of assets and the water supply business in Xinhuang Water Company. The above transaction was completed on 8 August 2013.

The transaction 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 Huai Hua Water at the non-controlling interests' proportionate share of Huai Hua Water's identifiable net assets.

The transaction was treated by the management as business combination without the transfer of consideration because the cash contribution from the Group to Huai Hua Water remained under the Group's control, and no goodwill was resulted.

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

(d) (Continued)

The assets and liabilities arising from the business combination are as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	27,606	27,606
Trade receivables	1,337	1,337
Prepayments, deposits and other receivables	18,658	18,658
Inventories	2,302	2,302
Trade payables	(5,270)	(5,270)
Accrued liabilities and other payables	(30,442)	(30,442)
Borrowings	(9,084)	(9,084)
Non-controlling interests	(5,107)	(5,107)
	<hr/>	<hr/>
Net assets attributed to the Group acquired	<hr/> <hr/> –	<hr/> <hr/> –

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

Since its acquisition, Huai Hua Water contributed revenue of HK\$6,896,000 and net profit of HK\$832,000 to the Group for the period from 8 August 2013 to 31 March 2014.

Had the combination taken place on 1 April 2013, the revenue and the net profit of the Group for the year ended 31 March 2014 would have been HK\$2,750,352,000 and HK\$558,006,000 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 2013, nor are they intended to be a projection of future results.

The acquisition-related costs expensed in the acquisitions were not material, and they had been expensed and were included in administrative expenses.

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

- (e) On 1 August 2013, the Group acquired 100% equity interest in Guangdong Xinsheng at a consideration of RMB24,500,000 (approximately HK\$30,815,000). Guangdong Xinsheng and its subsidiaries are principally engaged in sewage treatment operation. The acquisition was made as part of the Group's strategy to facilitate the sewage treatment business in the PRC.

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

	HK\$'000
Purchase consideration	30,815
Fair value of net liabilities acquired	26,135
Goodwill	56,950

The goodwill of HK\$56,950,000, which is not deductible for tax purposes, comprises the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	1,753	1,753
Interest in an associate	13,477	13,477
Available-for-sale financial assets	380	380
Inventories	1,040	1,040
Trade receivables	10,006	10,006
Amounts due from grantors for contract work	178,899	178,899
Prepayments, deposits and other receivables	1,705	1,705
Bank and cash balances	1,108	1,108
Trade payables	(406)	(406)
Accrued liabilities and other payables	(48,566)	(48,566)
Borrowings	(166,076)	(166,076)
Deferred tax liabilities	(7,071)	(7,071)
Non-controlling interests	(12,384)	(12,384)
Net liabilities attributed to the Group acquired	(26,135)	(26,135)
Bank and cash balances acquired		1,108
Cash consideration		(30,815)
Net outflow		(29,707)

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

(e) (Continued)

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

Since the acquisitions, Guangdong Xinsheng and its subsidiaries in aggregate contributed revenue of HK\$42,784,000 and net profit of HK\$9,624,000 to the Group for the period from 1 August 2013 to 31 March 2014.

Had the combination taken place on 1 April 2013, the revenue and the net profit of the Group for the year ended 31 March 2014 would have been HK\$2,760,844,000 and HK\$560,759,000 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 2013, nor are they intended to be a projection of future results.

The acquisition-related costs expensed in the acquisition were not material, and they had been expensed and were included in administrative expenses.

- (f) On 8 October 2012, the Group entered into an agreement with 蘆溪縣供水公司 (“Luxi Water Company”), that the Group and Luxi Water Company shall establish a new company, Luxi Water, to run a water supply business. The Group shall contribute 60% registered capital of Luxi Water by way of cash (RMB31,385,000) and Luxi Water Company shall contribute the remaining 40% interest of Luxi Water by way of assets and the water supply business in Luxi Water Company. The above transaction was completed on 1 December 2012.

The transaction 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 Luxi Water at the non-controlling interests’ proportionate share of Luxi Water’s identifiable net assets.

The transaction was treated by the management as business combination without the transfer of consideration because the cash contribution from the Group to Luxi Water remained under the Group’s control, and no goodwill was resulted.

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

(f) (Continued)

The assets and liabilities arising from the business combination are as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	34,867	34,867
Inventories	1,609	1,609
Trade receivables	225	225
Prepayments, deposits and other receivables	7,429	7,429
Bank and cash balances	122	122
Trade payables	(3,340)	(3,340)
Accrued liabilities and other payables	(4,839)	(4,839)
Borrowings	(9,919)	(9,919)
Non-controlling interests	(26,154)	(26,154)
	<hr/>	<hr/>
Net assets attributed to the Group acquired	–	–
	<hr/> <hr/>	<hr/> <hr/>
Bank and cash balances acquired and net inflow		122
		<hr/> <hr/>

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

The acquisition-related costs expensed in the acquisitions were not material, and they had been expensed and were included in administrative expenses.

Notes to the Financial Statements

For the year ended 31 March 2014

42. BUSINESS COMBINATIONS (Continued)

- (g) On 24 May 2012, the Group acquired 51% equity interest in Zhengzhou Shengxiang at a consideration of RMB1,785,000 (approximately HK\$2,231,000). Zhengzhou Shengxiang is principally engaged in water supply infrastructure business. The acquisition was made as part of the Group's strategy to facilitate the water supply business in the PRC. The Group has elected to measure the non-controlling interest in Zhengzhou Shengxiang at the non-controlling interests' proportionate share of Zhengzhou Shengxiang's identifiable net assets.

On 28 May 2012, the Group acquired 51% equity interest in Boluo Leixin at a consideration of RMB255,000 (approximately HK\$319,000). Boluo Leixin principally engaged in construction business. The Group has elected to measure the non-controlling interest in Boluo Leixin at the non-controlling interests' proportionate share of Boluo Leixin's identifiable net assets.

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

	HK\$'000
Purchase consideration	2,550
Fair value of net assets acquired	(312)
Goodwill	2,238

The goodwill of HK\$2,238,000, 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.

The assets arising from the above acquisitions are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	437	437
Prepayments, deposits and other receivables	182	182
Non-controlling interests	(307)	(307)
Net assets attributed to the Group acquired	312	312
Cash consideration and net outflow		(2,550)

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

The acquisition-related costs expensed in the acquisitions were not material, and they had been expensed and were included in administrative expenses.

Notes to the Financial Statements

For the year ended 31 March 2014

43. DEEMED/PARTIAL DISPOSAL OF SUBSIDIARIES

On 14 August 2013, Changsha Water, a 90% equity holding subsidiary of the Group, disposed its 100% equity interest in Ningxiang Jianhe to Legend Target Limited, a 80.66% owned subsidiary of the Group. The Group's effective interest in Ningxiang Jianhe was diluted from 90% to 80.66% and deemed loss on disposal of HK\$3,613,000 was charged to other reserves.

44. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The disposal of 廣東新會水務有限公司 and its subsidiaries was completed during the year ended 31 March 2013 and gain on disposal of approximately HK\$41,526,000 was recognised in profit or loss.

	2013 HK\$'000
Assets classified as held for sale	407,271
Liabilities classified as held for sale	(117,310)
Non-controlling interests	(158,231)
	<hr/> 131,730
Release of statutory reserves upon disposal	(5,552)
Release of exchange fluctuation reserve upon disposal	(18,242)
Release of other reserves upon disposal	(9,579)
Gain on disposal	41,526
	<hr/> 139,883
Cash consideration	<hr/> <hr/> 139,883

Notes to the Financial Statements

For the year ended 31 March 2014

45. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – MAJOR NON-CASH TRANSACTIONS

Disposal of subsidiaries

During the year ended 31 March 2014, the Group entered into agreement with 新余市榮宇物資貿易有限公司, an independent third party, to dispose of 30% equity interest in Xinyu Water Property and its subsidiary (together “Xinyu Property Group”), which is engaged in property development, investment and property management, at a consideration of approximately RMB23,291,000 (equivalents to HK\$29,515,000) in cash. The disposal was completed on 19 December 2013 and the Group recognised a gain on disposal of subsidiaries of approximately HK\$37,032,000.

	2014
	HK\$'000
Property, plant and equipment	8,079
Investment properties	329,114
Properties under development	261,888
Properties held for sales	70,110
Trade receivables	35,017
Prepayments, deposits and other receivables	166,872
Pledged deposits	7,847
Cash and bank balances	3,244
Trade payables	(17,982)
Accrued liabilities, deposits received and other payables	(295,046)
Due to non-controlling equity holders of subsidiaries	(266,051)
Provision for tax	(13,394)
Deferred tax liabilities	(161,350)
Non-controlling interests	(67,503)
	<hr/>
	60,845
Release of exchange fluctuation reserve upon disposal	(17,687)
	<hr/>
	43,158
Fair value of retained interest which became interests in associates	(50,675)
Gain on disposal of subsidiaries	37,032
	<hr/>
Cash consideration	29,515
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2014

45. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – MAJOR NON-CASH TRANSACTIONS (Continued)

Disposal of subsidiaries (Continued)

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

	HK\$'000
Cash consideration	29,515
Cash and bank balances disposal of	(3,244)
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	<u>26,271</u>

After completion of the disposal, Xinyu Property Group became an associate of the Group with 24% effective interests held by the Group.

46. COMMITMENTS AND GUARANTEE

(i) Capital commitments

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

	2014 HK\$'000	2013 HK\$'000
Contracted, but not provided for		
– Investment properties under construction	–	126,089
– Construction in progress	59,902	30,225
– Plant and machinery	68,338	30,883
– Water pipelines	7,581	91,516
	<u>135,821</u>	<u>278,713</u>

Notes to the Financial Statements

For the year ended 31 March 2014

46. COMMITMENTS AND GUARANTEE (Continued)

(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 (2013: 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:

	2014 HK\$'000	2013 HK\$'000
Within one year	34,233	25,728
In the second to fifth years, inclusive	126,766	97,810
After five years	352,162	279,063
	<u>513,161</u>	<u>402,601</u>

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

As lessor

The Group leases its investment properties under operating lease arrangements for terms ranging from one to ten years (2013: 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 lessees. None of the leases include contingent rentals.

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

	2014 HK\$'000	2013 HK\$'000
Within one year	22,416	18,491
In the second to fifth years, inclusive	39,386	41,975
After five years	12,642	9,042
	<u>74,444</u>	<u>69,508</u>

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

Notes to the Financial Statements

For the year ended 31 March 2014

46. COMMITMENTS AND GUARANTEE (Continued)

- (iii) At 31 March 2014, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$886,000 (2013: HK\$24,989,000).
- (iv) At 31 March 2014, the Company had commitment to make direct capital injections to its associates operating in the PRC of approximately HK\$113,924,000 (2013: HK\$6,000,000).
- (v) At 31 March 2014, the Group had commitment, which is contracted but not provided for to make acquisition of equity securities of approximately HK\$88,861,000 (2013: HK\$119,688,000). The relevant deposits of approximately HK\$9,873,000 (2013: HK\$59,750,000) were paid at 31 March 2014 (note 24(i)).
- (vi) As at 31 March 2014, the Group had given guarantee to banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$10,600,000 (2013: HK\$38,998,000). In the opinion of the directors, the financial impact arising from the above guarantee is insignificant and accordingly, they are not accounted for in the consolidated financial statements.

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

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 board of directors will determine the appropriate recovery actions.

Notes to the Financial Statements

For the year ended 31 March 2014

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

(a) Credit risk (Continued)

All customers who wish to obtain financial guarantee from the Group are subject to management review. The Group has entered into financial guarantee contracts in which it has guaranteed the bank the repayment of loan by customers of the Group. The Group has the obligation to compensate the bank for the loss it would suffer because the customers fail to repay. The Group's maximum exposure under the financial guarantee contracts is disclosed in "liquidity risk" below. To mitigate such risk, the Group requests the customers to provide 10% of loan amount as pledged deposits and pay all guarantee income in advance at the beginning of the loan period. Also, upon the request by the Group, key management personnel of the customers, as counter-guarantors, agree and undertake to provide, on voluntary basis, a counter-guarantee for the Group. The counter-guarantors hereby sign with the Group counter-guarantee contracts where the Group is the sole beneficiary on an unconditional and irrevocable basis. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the pledged deposit will be forfeited and the counter-guarantor is responsible to repay the outstanding loan principal together with accrued interest and penalty owned by the default borrowers to the bank.

The credit risk of the Group's other financial assets, which mainly comprise restricted bank deposits and cash and bank balances, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in restricted bank deposits and cash and bank balances is mitigated as cash is deposited banks with high credit rating.

(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 transactions 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 and bank borrowings 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 2014

47. 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, bank deposits and borrowings which bore floating interests. 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\$21,475,000 (2013: HK\$13,435,000) and the Company's loss after income tax and retained earnings would increase and decrease by approximately HK\$15,808,000 respectively (2013: profit after income tax and retained earnings would decrease by HK\$3,879,000). 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 and Company's profit and loss 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 2013 has been prepared on the same basis.

Notes to the Financial Statements

For the year ended 31 March 2014

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

(d) Price risk

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

The financial assets at fair value through profit and loss, the available-for-sale financial assets and derivative financial instruments expose the Group and the Company 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.

Sensitivity analysis

At 31 March 2014, 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\$7,338,000 (2013: HK\$9,092,000) and no change of other component of equity.

At 31 March 2014, it is estimated that a general increase of 10% of the price of the available-for-sale financial assets at fair value and financial assets at fair value through profit or loss and the value of derivative financial instruments, with all other variables held constant, would increase the Company's loss after income tax and decrease retained earnings by approximately HK\$498,000 (2013: decrease the Company's profit after income tax and retained earnings by approximately HK\$1,451,000) and increase of other component of equity by HK\$28,153,000 (2013: HK\$28,411,000).

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 2013 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.

Notes to the Financial Statements

For the year ended 31 March 2014

47. 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 2014					
Trade and bills payables	318,107	157,782	54,427	–	530,316
Other payables	707,236	102,581	3,553	–	813,370
Accrued liabilities	13,887	33,533	22	–	47,442
Due to associates	67,317	–	–	–	67,317
Borrowings	91,088	278,449	965,647	3,918,480	5,253,664
Due to non-controlling equity holders of subsidiaries	210,236	–	–	13,154	223,390
Convertible bonds	–	1,459	2,021	196,280	199,760
	<u>1,407,871</u>	<u>573,804</u>	<u>1,025,670</u>	<u>4,127,914</u>	<u>7,135,259</u>
Financial guarantees issued Maximum amount guaranteed	<u>428,200</u>	–	–	–	<u>428,200</u>
At 31 March 2013					
Trade and bills payables	406,420	78,276	47,315	–	532,011
Other payables	799,249	97,678	56,064	–	952,991
Accrued liabilities	4,918	36,520	3,131	–	44,569
Due to associates	49,454	–	–	–	49,454
Borrowings	83,441	132,249	456,618	2,488,996	3,161,304
Due to non-controlling equity holders of subsidiaries	198,817	–	–	21,740	220,557
Convertible bonds	–	313,013	2,348	232,515	547,876
	<u>1,542,299</u>	<u>657,736</u>	<u>565,476</u>	<u>2,743,251</u>	<u>5,508,762</u>

Notes to the Financial Statements

For the year ended 31 March 2014

47. 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 2014					
Other payables	34,400	–	–	–	34,400
Accrued liabilities	–	23,946	–	–	23,946
Borrowings	–	8,340	256,618	2,104,864	2,369,822
Due to subsidiaries	127,264	–	–	–	127,264
Convertible bonds	–	1,459	2,021	196,280	199,760
	<u>161,664</u>	<u>33,745</u>	<u>258,639</u>	<u>2,301,144</u>	<u>2,755,192</u>
At 31 March 2013					
Other payables	20,933	–	–	–	20,933
Accrued liabilities	–	12,913	–	–	12,913
Borrowings	–	–	–	598,205	598,205
Due to subsidiaries	159,287	–	–	–	159,287
Convertible bonds	–	313,013	2,348	232,515	547,876
	<u>180,220</u>	<u>325,926</u>	<u>2,348</u>	<u>830,720</u>	<u>1,339,214</u>

Notes to the Financial Statements

For the year ended 31 March 2014

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

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

(a) *Financial instruments not measured at fair value*

Financial instruments not measured at fair value include trade and bills receivables, amounts due from grantors for contract work, loan and other receivables, amounts due from/(to) subsidiaries, associates and non-controlling equity holders of subsidiaries, bank and cash balances, available-for-sale financial assets, trade and bills payables, other payables, accrued liabilities, borrowings and convertible bonds. The Directors consider that the carrying amount of these financial assets and liabilities approximate their fair value as at 31 March 2014 and 2013.

(b) *Financial instruments measured at fair value*

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

Fair value hierarchy

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- 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).

Notes to the Financial Statements

For the year ended 31 March 2014

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

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

(b) Financial instruments measured at fair value (Continued)

At 31 March 2014, 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	–	67,263	–	67,263
Financial assets at fair value through profit or loss	1,303	–	–	1,303
Derivative financial instruments	–	–	77,056	77,056
	<u>1,303</u>	<u>67,263</u>	<u>77,056</u>	<u>145,622</u>
Liabilities				
Derivative financial instruments	–	–	(4,976)	(4,976)
Net fair values	<u>1,303</u>	<u>67,263</u>	<u>72,080</u>	<u>140,646</u>
Company				
Assets				
Available-for-sale financial assets	281,528	–	–	281,528
Liabilities				
Derivative financial instruments	–	–	(4,976)	(4,976)
Net fair values	<u>281,528</u>	<u>–</u>	<u>(4,976)</u>	<u>276,552</u>

Notes to the Financial Statements

For the year ended 31 March 2014

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

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

(b) Financial instruments measured at fair value (Continued)

At 31 March 2013, 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
		(Restated)	(Restated)	
Group				
Assets				
Available-for-sale financial assets	–	63,670	–	63,670
Financial assets at fair value through profit or loss	1,447	–	–	1,447
Derivative financial instruments	–	–	103,990	103,990
	<u>1,447</u>	<u>63,670</u>	<u>103,990</u>	<u>169,107</u>
Liabilities				
Derivative financial instruments	–	–	(14,513)	(14,513)
Net fair values	<u>1,447</u>	<u>63,670</u>	<u>89,477</u>	<u>154,594</u>
Company				
Assets				
Available-for-sale financial assets	284,105	–	–	284,105
Liabilities				
Derivative financial instruments	–	–	(14,513)	(14,513)
Net fair values	<u>284,105</u>	<u>–</u>	<u>(14,513)</u>	<u>269,592</u>

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

After effective of HKFRS 13 during the year, the Directors revisited the nature of the financial instruments measured at fair value of the Group and found that fair value hierarchy of derivative financial instruments in level 3. Comparative information of fair value hierarchy is restated.

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 2014

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

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

(b) Financial instruments measured at fair value (Continued)

Information about level 2 fair value measurements

The fair values of available-for-sale financial assets are calculated as the present value of the estimated future cash flows based on observed yield curves.

Information about Level 3 fair value measurement

The fair values of derivative financial instruments are determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is the expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 March 2014, it is estimated that with all other variables held constant, an increase in the expected volatility by 5% would have increased the Group's profit by HK\$1,334,000 (2013: HK\$2,055,000) while a decrease in the expected volatility by 5% would have decreased the Group's profit by HK\$618,000 (2013: HK\$1,222,000) for conversion option embedded in Water Property Convertible Bonds classified as derivative financial assets. For the Convertible Bonds derivative component classified as derivative financial liabilities, it is estimated that with all other variables held constant, an increase in the expected volatility by 5% would have decreased the Group's profit by HK\$483,000 (2013: HK\$1,596,000) while a decrease in the expected volatility by 5% would have increased the Group's profit by HK\$490,000 (2013: HK\$1,668,000).

Significant inputs as follow:

Derivative financial assets – conversion option embedded in Water Property Convertible Bonds

Underlying stock price	HK\$0.6000 per share
Conversion price	HK\$0.3781 per share
Risk-free rate	1.100%
Expected volatility	47.868%
Expected dividend yield	Nil

Derivative financial liabilities – Convertible Bonds derivative component

Underlying stock price	HK\$2.460 per share
Conversion price	HK\$2.930 per share
Risk-free rate	0.211%
Expected volatility	41.466%
Expected dividend yield	2.32%
Discount rate	9.00%

Notes to the Financial Statements

For the year ended 31 March 2014

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

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

(b) Financial instruments measured at fair value (Continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2014 HK\$'000	2013 HK\$'000
Group		
Derivative financial asset:		
At 1 April	103,990	109,012
Changes in fair value recognised in profit or loss during the year attributable to financial assets held at the reporting date	(26,934)	(5,022)
At 31 March	<u>77,056</u>	<u>103,990</u>
Group and Company		
Derivative financial liabilities:		
At 1 April	14,513	37,960
Arising from repurchases	(8,784)	(3,507)
Changes in fair value recognised in profit or loss during the year attributable to financial liabilities held at the reporting date	(753)	(19,940)
At 31 March	<u>4,976</u>	<u>14,513</u>

Notes to the Financial Statements

For the year ended 31 March 2014

47. 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	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loan and receivables				
– Trade and bills receivables	577,610	530,385	–	–
– Amounts due from grantors for contract work	285,557	111,076	–	–
– Loan and other receivables	520,440	476,943	13,344	5,880
– Due from subsidiaries	–	–	1,481,306	1,342,306
– Due from associates	252,298	118,588	–	–
– Due from non-controlling equity holders of subsidiaries	348,292	359,727	–	–
	1,984,197	1,596,719	1,494,650	1,348,186
– Bank and cash balances (including pledged deposits)	1,769,325	967,831	572,577	145,659
	3,753,522	2,564,550	2,067,227	1,493,845
At fair value				
– Available-for-sale financial assets	67,263	63,670	281,528	284,105
– Financial assets at fair value through profit or loss (held for trading)	1,303	1,447	–	–
– Derivative financial instruments (held for trading)	77,056	103,990	–	–
	145,622	169,107	281,528	284,105
At cost				
– Available-for-sale financial assets	96,553	98,276	40,032	40,032
	3,995,697	2,831,933	2,388,787	1,817,982

Notes to the Financial Statements

For the year ended 31 March 2014

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

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

Financial liabilities

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
At amortised cost				
– Trade and bills payables	529,023	530,168	–	–
– Other payables	813,370	952,991	34,400	20,933
– Accrued liabilities	47,442	44,569	23,946	12,913
– Borrowings	4,659,326	2,728,756	2,153,335	533,528
– Due to subsidiaries	–	–	127,264	159,287
– Due to associates	67,317	49,454	–	–
– Due to non-controlling equity holders of subsidiaries	223,390	220,557	–	–
– Convertible bonds	163,461	496,838	163,461	496,838
	6,503,329	5,023,333	2,502,406	1,223,499
At fair value				
– Derivative financial instruments (held for trading)	4,976	14,513	4,976	14,513
	6,508,305	5,037,846	2,507,382	1,238,012

Notes to the Financial Statements

For the year ended 31 March 2014

48. 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.

No changes were made in the objectives, policies or processes during the current and previous years. 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:

	2014 HK\$'000	2013 HK\$'000
Capital		
Total equity	5,696,128	5,193,933
Overall financing		
Borrowings	4,659,326	2,728,756
Convertible bonds	163,461	496,838
Derivative financial instruments	4,976	14,513
Due to associates	67,317	49,454
Due to non-controlling equity holders of subsidiaries	223,390	220,557
	5,118,470	3,510,118
Capital-to-overall financing ratio	1.11 times	1.48 times

Notes to the Financial Statements

For the year ended 31 March 2014

49. RELATED PARTY TRANSACTIONS

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

- (a) Compensation of key management personnel of the Group:

	2014 HK\$'000	2013 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	33,551	32,967
– Retirement scheme contribution	207	161
	<u>33,758</u>	<u>33,128</u>

- (b) In addition to those disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions:

	2014 HK\$'000	2013 HK\$'000
Purchase of raw materials from an associate	<u>7,103</u>	<u>–</u>

The Group purchased raw materials of approximately HK\$7,103,000 (2013: Nil) from a subsidiary of Mitsumaru, an associate of the Group. The purchases were made with reference to the terms negotiated between both parties.

Notes to the Financial Statements

For the year ended 31 March 2014

49. RELATED PARTY TRANSACTIONS (Continued)

- (c) During the year ended 31 March 2014, the Group acquired additional equity interest of 25.06%, 25.06%, 15.61% and 13.06% in Xinyu Jianhe, Xinyu Examination, Jian Jianhe and Pingxiang Jianhe respectively from the non-controlling equity holders at a consideration of RMB5,217,000 (approximately HK\$6,691,000). 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 holders has been dealt with in the other reserves.
- (d) During the year ended 31 March 2013, the Group acquired additional 15.11% equity interest in Beijing Shangheyuan from the non-controlling equity holder at a consideration of RMB55,065,000 (approximately HK\$68,831,000). The difference between the consideration and the carrying amount of the net assets attributable to the additional interest in subsidiary being acquired from the non-controlling equity holder has been dealt with in the other reserves.
- (e) During the year ended 31 March 2013, the Group acquired additional 40% equity interest in Ningxiang Shunfa from the non-controlling equity holder at a consideration of RMB4,800,000 (approximately HK\$6,000,000). The difference between the consideration and the carrying amount of the net assets attributable to the additional interest in subsidiary being acquired from the non-controlling equity holder has been dealt with in the other reserves.

50. POST REPORTING DATE EVENTS

In addition to those disclosed elsewhere in these financial statements, the Group had the following material events after 31 March 2014:

- (a) On 27 May 2014, the Company and Shanghai Silver Dragon, entered into a term facility agreement with ADB for a loan facility of US\$100 million. The term facility agreement is part of a two phase financing cooperation of up to an aggregate amount of US\$200 million. The facility of US\$100 million was not utilised up to the date of this report.
- (b) On 16 June 2014, the Group entered into an agreement with 安鄉縣自來水公司 ("Anxiang Water Company"), that the Group and Anxiang Water Company shall establish a new company, Anxiang Silver Dragon Water Limited ("Anxiang Silver Dragon"), to run a water supply business. The Group shall contribute 70% registered capital of Anxiang Silver Dragon by way of cash (RMB35,000,000) and Anxiang Water Company shall contribute the remaining 30% interest of Anxiang Silver Dragon by way of assets and the water supply business in Anxiang Water Company. The above transaction is not completed up to the date of this report.
- (c) Subsequent to the reporting date and up to the date of this report, the Company repurchased a total of 5,192,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$13,051,000. The highest price paid and the lowest price paid was HK\$2.67 and HK\$2.37 respectively. Those repurchased shares were not cancelled as at the date of this report.

Particulars of Properties for Investment

For the year ended 31 March 2014

Location	Type	Lot number	Lease term
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	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

Note: Insignificant properties for investment are not included.

Particulars of Properties under Development

For the year ended 31 March 2014

Location	Interest attributable to the Group in percentage	Floor area on completion in sq. m. (approx.)	Type of development	Expected year of completion	Stage of completion
寧鄉縣玉潭鎮新城社區	90%	39,000	Commercial/ residential	2016	Construction in progress
荊州市江津東路與三灣路交匯處	51%	24,000	Residential	2016	Construction in progress
中國江西省新余市仙女湖體育公園 環湖路南側及仙女湖大道北側	54%	309,000	Commercial	2014	Construction in progress

Financial Summary

RESULTS

	Year ended 31 March				
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue	2,746,583	2,250,675	1,896,944	1,478,163	1,398,168
Profit before income tax	787,643	764,478	687,116	725,218	520,134
Income tax expense	(230,092)	(238,939)	(154,647)	(124,726)	(75,431)
Profit for the year	557,551	525,539	532,469	600,492	444,703
Attributable to:					
Owners of the Company	281,295	285,809	315,280	421,905	301,571
Non-controlling interests	276,256	239,730	217,189	178,587	143,132
	557,551	525,539	532,469	600,492	444,703

ASSETS AND LIABILITIES

	At 31 March				
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Total assets	13,506,882	11,649,923	10,678,668	8,361,436	7,776,110
Total liabilities	(7,810,754)	(6,455,990)	(5,637,227)	(4,028,107)	(3,949,332)
Non-controlling interests	(2,165,697)	(1,810,733)	(1,794,072)	(1,468,697)	(1,277,124)
Equity attributable to owners of the Company	3,530,431	3,383,200	3,247,369	2,864,632	2,549,654