



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

Stock code : 855

Annual Report 2020

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Corporate Information

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
 Ms. Ding Bin
 Ms. Liu Yu Jie
 Mr. Li Zhong
 Mr. Duan Jerry Linnan (*appointed on 15 October 2019*)

Non-executive

Mr. Zhao Hai Hu
 Mr. Zhou Wen Zhi
 Mr. Makoto Inoue
 Ms. Wang Xiaoqin

Independent Non-executive

Mr. Chau Kam Wing
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan (*appointed on 22 November 2019*)
 Mr. Chan Wai Cheung Admiral
 (*appointed on 15 January 2020*)
 Mr. Ong King Keung
 (*resigned on 22 November 2019*)

AUDIT COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan (*appointed on 22 November 2019*)
 Mr. Chan Wai Cheung Admiral
 (*appointed on 15 January 2020*)
 Mr. Ong King Keung
 (*resigned on 22 November 2019*)

REMUNERATION COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan (*appointed on 22 November 2019*)
 Mr. Chan Wai Cheung Admiral
 (*appointed on 15 January 2020*)
 Mr. Ong King Keung
 (*resigned on 22 November 2019*)

NOMINATION COMMITTEE

Mr. Duan Chuan Liang (*Chairman of committee*)
 Mr. Chau Kam Wing
 Mr. Siu Chi Ming
 Ms. Ho Ping

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 54, Hopewell Centre
 183 Queen's Road East
 Hong Kong

LEGAL ADVISERS

As to Bermuda law
 Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

Bank of Communications
 China Merchants Bank
 Asian Development Bank
 Australia and New Zealand Banking Group Limited
 Far Eastern International Bank

WEBSITE

<http://www.chinawatergroup.com>

STOCK CODE

855

Corporate Information

Water supply business

- City water supply operation and construction
 - Connected users over 5.7 million
 - Potential reaching population over 30 million people
 - Water pipelines over 150,000 km

Environmental protection business

- Sewage treatment operation and construction
(including water environmental renovation construction projects)
- ▲ Drainage operation



Financial Highlights

	2020 HK\$'000	2019 HK\$'000	Change
RESULTS HIGHLIGHTS			
Revenue	8,694,303	8,302,211	4.7%
Gross profit	3,758,485	3,463,839	8.5%
Profit for the year	2,507,289	2,130,283	17.7%
Profit for the year attributable to owners of the Company	1,639,495	1,369,235	19.7%
Basic earnings per share (HK cents)	102.12	85.10	20.0%
Diluted earnings per share (HK cents)	102.12	85.10	20.0%
Total dividend per share (HK cents)	30	28	7.1%
– Interim dividend (HK cents)	14	12	16.7%
– Final dividend (HK cents)	16	16	–%

	2020 HK\$'000	2019 HK\$'000	Change
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	41,902,953	35,824,636	17.0%
Total liabilities	27,804,450	22,922,166	21.3%
Net assets	14,098,503	12,902,470	9.3%
Net assets per share ¹	5.30	4.95	7.1%
Current ratio	1.08	1.13	
Gearing ratio ²	66.4%	64.0%	

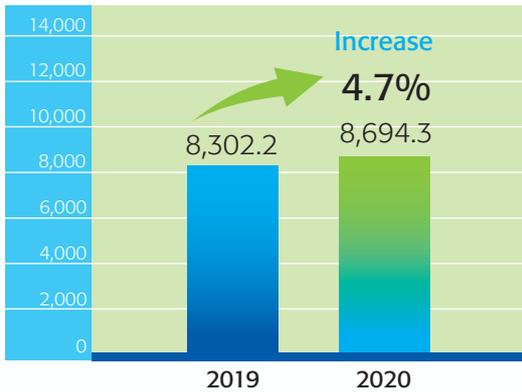
¹ Net assets per share = Equity attributable to owners of the Company / Number of issued shares at year end

² Gearing ratio = Total liabilities / Total assets

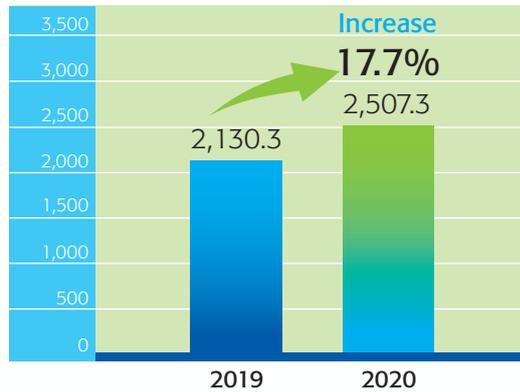
Financial Highlights

The Group's total revenue and profit for the year:

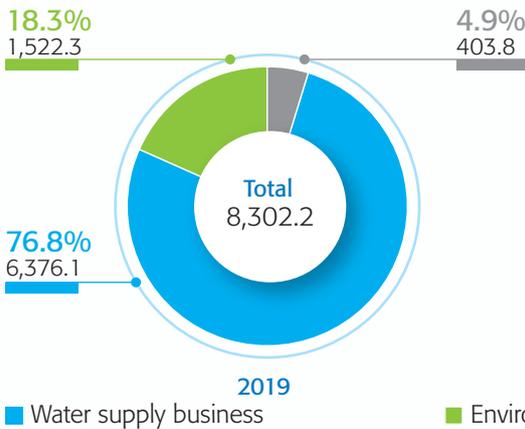
Total revenue (HK\$ million)



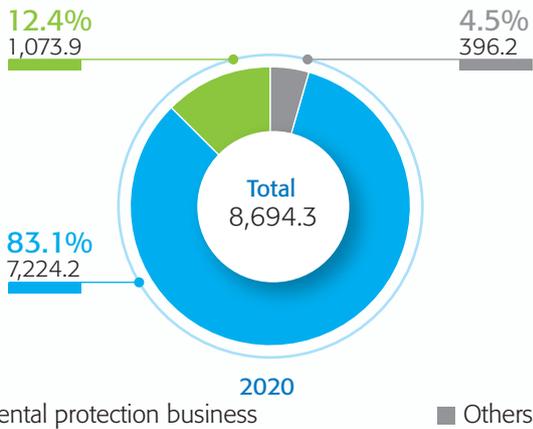
Total profit (HK\$ million)



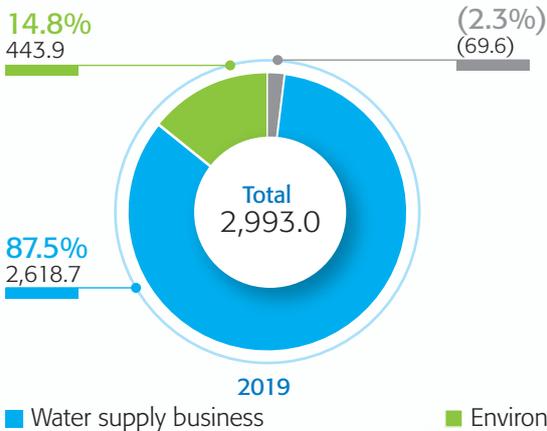
Total segment revenue (HK\$ million)



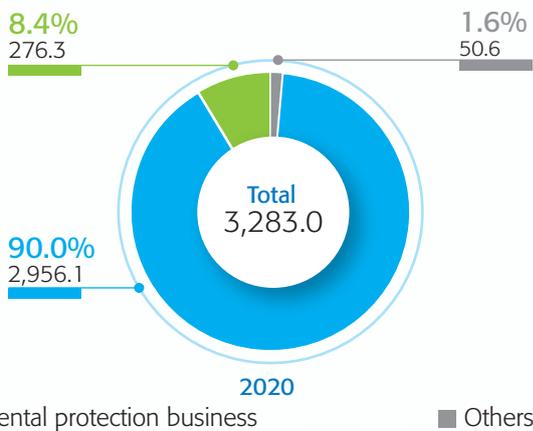
Total segment revenue (HK\$ million)



Total segment profit/(loss) (HK\$ million)

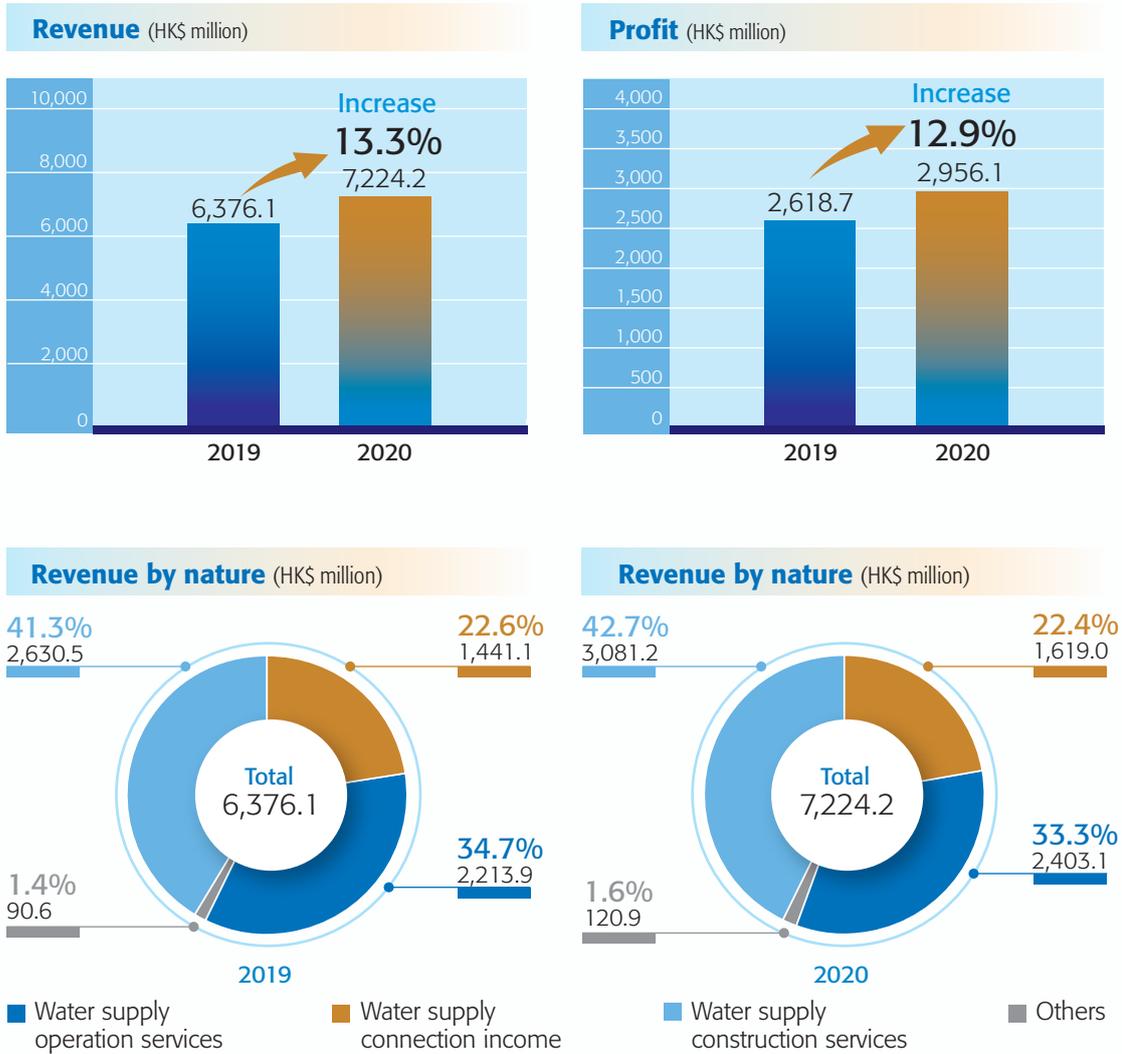


Total segment profit (HK\$ million)



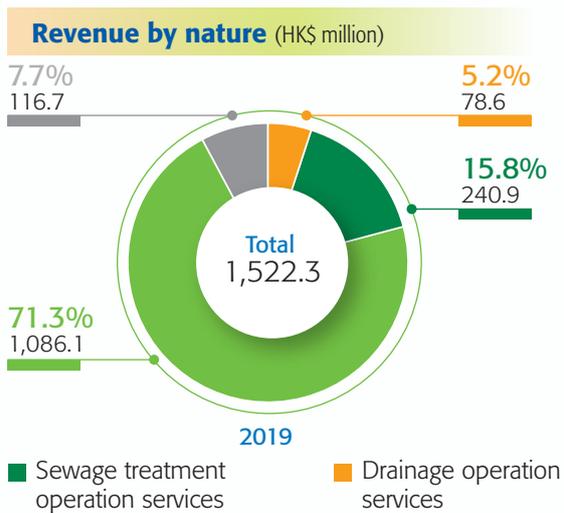
Financial Highlights

1. Water Supply Business Analysis



Financial Highlights

2. Environmental Protection Business Analysis



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 2020.

FINANCIAL PERFORMANCE

The Group continued its effort to strengthen the management of its subsidiaries and expanded the operating capacity and investment scale in the existing sector. The Group had a steady growth in its core businesses of "City water supply operation and construction" and "Environmental protection" segments for the year ended 31 March 2020. The combined revenue from "City water supply operation and construction" and "Environmental protection" segments amounted to HK\$8,298.2 million (2019: HK\$7,898.5 million), representing a steady increase of 5.1% as compared with the last corresponding year. The relevant combined segment profit amounted to HK\$3,232.4 million (2019: HK\$3,062.6 million), representing a steady increase of 5.5% as compared with the last corresponding year.

For the overall result of the year ended 31 March 2020, the Group recorded a revenue of HK\$8,694.3 million, representing a steady increase of 4.7% from HK\$8,302.2 million in last year. The Group recorded a gross profit of HK\$3,758.5 million, representing a steady increase of 8.5% from HK\$3,463.8 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\$1,639.5 million, representing a steady increase of 19.7% from HK\$1,369.2 million in last year. The basic earnings per share increased steadily by 20.0% to HK102.12 cents in current year.

DIVIDENDS

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 HK16 cents per share. Together with the interim dividend of HK14 cents per share, the total dividends for the year will be HK30 cents (2019: an interim dividend of HK12 cents and a final dividend of HK16 cents amounting to a total of HK28 cents) per ordinary share.

BUSINESS

The Group upholds its business vision of "Water-oriented, Kindness to Society" while striving for its goal of becoming the best integrated operator of raw water, tap water, direct drinking water, sewage treatment, drainage, water environmental renovation and related services in the People's Republic of China (the "PRC") and achieving satisfactory results. The Group sustained continuous growth in its water supply and environmental protection businesses, serving potential population over 30 million people in over 60 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 economic growth and marketisation of the water sector continues, we believe that water tariff and usage still have ample room to grow.

APPRECIATION

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\$8,302.2 million for the year ended 31 March 2019 to HK\$8,694.3 million for the year ended 31 March 2020, representing a steady increase of 4.7%. The Group continued its strategy to focus on core business. For the year under review, the Group recorded a steady growth in its "City water supply operation and construction" and "Environment protection" segments. The total revenue attributable to the "City water supply operation and construction" and "Environment protection" segments increased from HK\$7,898.5 million to HK\$8,298.2 million. This represented a steady and continuous growth of segments revenue by 5.1%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

(i) Water Supply Business Analysis

Water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Hubei, Henan, Hebei, Hainan, Jiangsu, Jiangxi, Shenzhen, Guangdong, Beijing, Chongqing, Shandong, Shanxi and Heilongjiang.

For the year under review, the revenue from city water supply operation and construction segment amounted to HK\$7,224.2 million (2019: HK\$6,376.1 million), representing a steady increase of 13.3% as compared with the last corresponding year. The water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$2,956.1 million (2019: HK\$2,618.7 million), representing a steady increase of 12.9% as compared with the last corresponding year. This was mainly because of increase in volume of water sold, procurement of more construction and connection work driven by the continuation of urban-rural water supply integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the direct drinking water business and new water projects during the year.

(ii) Environmental Protection Business Analysis

Environmental protection projects of the Group are well spread in various provincial cities and regions across China, including Beijing, Tianjin, Shenzhen, Guangdong, Henan, Hebei, Hubei, Jiangxi, Shaanxi, Heilongjiang and Sichuan.

For the year under review, the revenue from environmental protection segment amounted to HK\$1,073.9 million (2019: HK\$1,522.3 million), representing a significant decrease of 29.5% as compared with the last corresponding year. The environmental protection segment profit (including sewage treatment and drainage operating and construction, solid waste and hazardous waste business, environmental sanitation and water environment management) amounted to HK\$276.3 million (2019: HK\$443.9 million), representing a significant decrease of 37.8% as compared with the last corresponding year. This was mainly due to the decrease in the work for upgrade of facilities for higher operating standard and water environmental renovation construction services in current year.

Chairman's Statement

(iii) Property Business Analysis

The Group held various property development and investment projects which are mainly located in Beijing, Chongqing, Jiangxi, Hunan, Hubei and Henan provinces of China.

For the year under review, the revenue from the property business segment amounted to HK\$237.2 million (2019: HK\$291.0 million). The total property business segment profit amounted to HK\$42.1 million (2019: segment loss amounted to HK\$78.7 million). This was mainly due to the increase in profit margin in sales of property projects in current year.

The Group acquired 600,000,000 ordinary shares of Kangda International Environmental Company Limited ("Kangda International") at the price of HK\$2.00 per share, representing its 29.52% equity interest, at a total consideration of HK\$1.2 billion in April 2019. The audited net asset value per ordinary share of Kangda International attributable to the shareholders as at 31 December 2018 was approximately RMB2.02 (equivalent to approximately HK\$2.35). The shares of Kangda International are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 6136) and it was accounted for as an associate of the Group during the year under review. During the year under review, the total contribution to the Group by Kangda International amounting to HK\$323.2 million, which comprised the excess of the investor's share of the net fair value of associate's identifiable assets and liabilities over the cost of the investment of HK\$214.8 million and share of post-acquisition results of Kangda International of HK\$108.4 million, was included in the share of results of associates.

For the corresponding year under review, the Group recorded a gain on disposal of subsidiaries amounting to HK\$117.8 million, which was mainly because of the disposal of the non-core investments including the entire interests in 新余市仙女湖游船有限公司 and 新余市仙女湖聖祥發展有限公司, and 55% equity interest in 江西仙女湖旅游股份有限公司. The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing its core businesses in China.

PROSPECTS

The outbreak of the COVID-19 pandemic across different regions has brought unprecedented impacts and challenges to the global economy. Uncertainties and volatility surrounding global economic outlook has surged. There are and will be significant changes in the mode of production and lifestyle in the society. Under such market conditions, the nature of the Group's utility business characterised by stable revenue and cash flow has become a prominent advantage. China has actively deployed to resume production and reboot economic activities after an effective control of the first wave of the pandemic in the nation. The rapid recovery of China's economy will lay down beneficial foundation for future development and enhancement of the water industry.

Looking forward, benefited from the Group's two core development strategies, namely urban-rural water supply integration and supply-drainage integration, and the adherence to its strategy to actively expand value-added services, it is expected that the Group's business will continue to grow steadily. The Group shall continue to expand its business in the area of infrastructure and public services through the long-term public-private partnership which has been actively promoted by the government. It shall continue to dedicate its efforts in capacity building and risk prevention and control, so as to enhance its overall services capability, and the efficiency and quality of its all-round services of its relevant business in the water industry chain, with its urban water supply services as the focus. As to the direction of future business development, the Group shall focus on the development of its core water supply business, accelerate the development of its value-added businesses including direct drinking water, and improve the smart pipeline network system in order to boost its core competitiveness and provide better services to the society and people, so as to create higher returns for its shareholders.

MAJOR ACQUISITIONS AND DISPOSALS

Details of the Group's acquisitions and disposals during the year ended 31 March 2020 are set out in notes 42 and 43 to the consolidated financial statements respectively.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2020, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$6,603.9 million (2019: HK\$4,617.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 66.4% (2019: 64.0%) as at 31 March 2020. The current ratio is 1.08 times (2019: 1.13 times) as at 31 March 2020. The decrease in current ratio is mainly due to classification of long-term loan with repayment option amounting to USD64 million (approximately HK\$499 million) from non-current liability into current liability. 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 2020, the Group has employed approximately 9,400 staff. Most of them stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

FOREIGN EXCHANGE RISK MANAGEMENT

Majority of the subsidiaries of the Company operates in the PRC with most of its transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated financial statements. If RMB appreciates/depreciates against Hong Kong dollar, the Group would record a(n) increase/decrease in the Group's net asset value. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk. The Group manages foreign currency risk by closely monitoring the proportion of its non-Renminbi borrowings.

PLEDGE OF ASSETS

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 31 March 2020 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over shares of certain subsidiaries of the Group;
- (c) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2020 was HK\$92,164,000 (2019: HK\$798,255,000);
- (d) charges over right-of-use assets (2019: prepaid land lease payments) in which their aggregate carrying amount as at 31 March 2020 was HK\$177,438,000 (2019: HK\$336,809,000);
- (e) charges over investment properties in which their aggregate carrying amount as at 31 March 2020 was HK\$301,011,000 (2019: HK\$315,176,000);
- (f) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2020 was HK\$1,011,983,000 (2019: HK\$933,356,000);
- (g) charges over properties held for sale in which their aggregate carrying amount as at 31 March 2020 was HK\$75,920,000 (2019: HK\$Nil);
- (h) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 31 March 2020 was HK\$232,584,000 (2019: HK\$235,294,000); and
- (i) charges over the Group's bank deposits in amount of HK\$963,236,000 as at 31 March 2020 (2019: HK\$644,524,000).

Chairman's Statement

CONTINGENT LIABILITIES

As at 31 March 2020, the Group did not have any material contingent liabilities (2019: Nil).

ACKNOWLEDGEMENTS

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

Duan Chuan Liang

Chairman

Hong Kong, 29 June 2020

Directors' and Senior Management Biographical Details

DIRECTORS

Executive Directors

Mr. Duan Chuan Liang, aged 57, 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. He is the founder of water business of the Group and has over 30 years of deep and solid experience in the water industry. He joined the Group in 2003.

Ms. Ding Bin, aged 44, has over 20 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.

Ms. Liu Yu Jie, aged 56, was graduated from University of International Business and Economic in Beijing and obtained a Master Degree in Business Administration. Ms. Liu has been working in Hong Kong, Singapore and the PRC for over 20 years in total and is familiar with the business environment and regulatory system of the three places. She has comprehensive experience in capital market, business promotion and corporate management; participated in IPO and underwriting of over 30 companies on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); led and completed merger and acquisition of three companies in Hong Kong and Singapore; assisted capital raising and management of large-scale industrial fund for investment in China; acted as executive directors of listed companies in Hong Kong and Singapore which engage in utilities and infrastructure investment. Currently, she is also the executive director of New Universe Environmental Group Limited (stock code: 436) and Kangda International Environmental Company Limited (stock code: 6136), and an independent non-executive director of Zhongyu Gas Holdings Limited (stock code: 3633), which are listed on the main board of the Stock Exchange. She joined the Group in 2014.

Mr. Li Zhong, aged 51, was graduated from the Beijing University of Chemical Technology with a major in Polymer Materials, and obtained a Master Degree in Business Administration from Saint Mary's University of Canada in 1997. He holds registered engineer certifications from both Mainland China and Canada, and has served in national State-owned enterprises, United States-based corporations and renowned global enterprises in Mainland China and Hong Kong for over 20 years. Since 2002, he has dedicated himself to urban public utilities with a focus on water affairs, as well as the investment, management and operation of infrastructure projects. Since 2004, he has been a director of Shenzhen Bus Group Co., Ltd.. Mr. Li also serves as deputy president of China Environmental Chamber of Commerce, a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference, and the honorary chairman of the Hong Kong Volunteers Association. Mr. Li is also the co-chairman and executive director of Kangda International Environmental Company Limited, which is listed on the main board of the Stock Exchange (stock code: 6136). He joined the Group in 2015.

Directors' and Senior Management Biographical Details

Mr. Duan Jerry Linnan, aged 29, studied in Beijing Normal University with a major in psychology. Mr. Duan joined the Company as the president assistant in 2011, mainly focusing on hotel operation and intelligent water businesses. At the same time, Mr. Duan assisted the directors of the Company in capital market and investor relations, etc. In 2015, Mr. Duan was appointed as the general manager of the hotel under the Group in Nanjing, and was in charge of the construction, procurement and daily operation of various hotels of the Group. Mr. Duan holds directorship or senior management positions in various subsidiaries of the Company. Mr. Duan is also the executive director and chief executive officer of Kangda International Environmental Company Limited, which is listed on the main board of the Stock Exchange (stock code: 6136). Mr. Duan has comprehensive experiences in human resources and corporate management. Mr. Duan is the son of Mr. Duan Chuan Liang, the substantial shareholder, chairman and executive director of the Company.

Non-executive Directors

Mr. Zhao Hai Hu, aged 65, was graduated from Zhejiang University with a master degree in Engineering. He was a general manager of an irrigation technology company which was engaged in the research and development of irrigation and hydroelectric technology. Mr. Zhao was primarily responsible for project management, research and development of irrigation and 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 29 years' experience in engineering. He joined the Group in 2003.

Mr. Zhou Wen Zhi, aged 79, 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 2004.

Mr. Makoto Inoue, aged 67, 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 executive officer. He has over 40 years of experience in leasing and finance, investment banking, and alternative investment in a global context. He was also the non-executive director of Haichang Ocean Park Holdings Ltd. (stock code: 2255), a company listed on the main board of the Stock Exchange. He joined the Group in 2012.

Ms. Wang Xiaoqin, aged 47, was graduated from the Shenzhen University majoring in International Finance, and received a Master Degree in Business Administration from the University of Ballarat in Australia. She has held senior management position in finance and technology companies, and has extensive experience in such fields. She joined the Group in 2004.

Directors' and Senior Management Biographical Details

Independent Non-executive Directors

Mr. Chau Kam Wing, aged 57, has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed in Hong Kong. Mr. Chau obtained a Master Degree in Business Administration from the University of San Francisco, United States of America ("USA") in 2000. He is also a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is currently the finance director of Winox Holdings Limited (stock code: 6838), an independent non-executive director of Carpenter Tan Holdings Limited (stock code: 837), Ching Lee Holdings Limited (stock code: 3728) and Kangda International Environmental Company Limited (stock code: 6136), which are listed on the main board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Eco-Tek Holdings Limited (stock code: 8169), and was an independent non-executive director of Zhejiang Chang'an Renheng Technology Co., Ltd. (stock code: 8139) from 8 May 2014 to 11 May 2019, which are both listed on the Growth Enterprise Market ("GEM") of the Stock Exchange. He joined the Group in 2007. He is also the chairman of the audit committee and remuneration committee and a member of the nomination committee of the Company.

Mr. Siu Chi Ming, aged 39, holds a Bachelor of Business Administration (Accounting) from Hong Kong Baptist University. He is a member of the Association of Chartered Certified Accountants and an associate of Hong Kong Institute of Chartered Secretaries as well as the Institute of Chartered Secretaries and Administrators. Mr. Siu is the executive director and company secretary of Jiu Rong Holdings Limited, which is listed on the main board of the Stock Exchange (stock code: 2358) and an independent non-executive director of Ying Kee Tea House Group Limited (stock code: 8241), which is listed on the GEM of the Stock Exchange. Mr. Siu was a senior manager of a corporate finance division of a licensed corporation registered under Securities and Futures Ordinance (the "SFO") and a licensed person registered under the SFO to carry on type 6 (advising on corporate finance) regulated activities. He has been involved in several corporate finance transactions including mergers and acquisitions, corporate reorganisation and a variety of fund raising exercises. Mr. Siu joined the Group in 2016. He is also a member of the audit committee, remuneration committee and nomination committee of the Company.

Ms. Ho Ping, aged 48, graduated from Inner Mongolia Finance and Economics College with a bachelor degree in accounting. She has over 15 years of experience in the securities industry in the PRC and was a senior manager at the investment banking department of China Investment Securities Limited Liability Company. She joined the Group in 2017. She is also a member of the audit committee, remuneration committee and nomination committee of the Company.

Ms. Zhou Nan, aged 34, was graduated from the University of Maryland at College Park, USA with Double Bachelor Degrees in Economics and Accounting. She obtained her degree in Master of Business Administration from the Wharton School, University of Pennsylvania, USA. Ms. Zhou's most recent position was Head of USA, Baidu Changcheng Investment Partners. Ms. Zhou initially joined Baidu in 2016 to lead Baidu's strategic & venture investment in the USA. There she established Baidu's venture fund platform in Silicon Valley, and built the investment landscape for both Baidu and Baidu's affiliated funds in the USA. During her career at Baidu Investment, she developed in-depth industry insights in artificial intelligence (AI) and its application across different industries, self-driving cars (sensor & system), deep-tech/semiconductor/edge computing, digital health, and SaaS. Prior to joining Baidu, Ms. Zhou worked for reputable investment banks in Hong Kong and the USA and was responsible for numerous IPOs, merger and acquisitions and fund raising exercises and has gained extensive experience, expertise and connections in the capital markets of Hong Kong and the USA. Ms. Zhou joined the Group in 2019. She is also a member of the audit committee and remuneration committee of the Company.

Directors' and Senior Management Biographical Details

Mr. Chan Wai Cheung Admiral, aged 47, holds a Bachelor of Arts (Honours) in Accountancy from City University of Hong Kong. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in the accounting and auditing fields. Mr. Chan is an executive director and the company secretary of Energy International Investments Holdings Limited (stock code: 353), an independent non-executive director of each of SFund International Holdings Limited (stock code: 1367) and Zhong Ao Home Group Limited (stock code: 1538), which are listed on the main board of the Stock Exchange. Mr. Chan is also an independent non-executive director of China Oil Gangran Energy Group Holdings Limited (stock code: 8132), which is listed on the GEM on the Stock Exchange. Mr. Chan was a non-executive director of China Nonferrous Metals Company Limited (stock code: 8306) from June 2015 to May 2019, which was listed on the Stock Exchange; and an independent non-executive director of Carnival Group International Holdings Limited (stock code: 996) from December 2014 to April 2019, which is listed on the Stock Exchange. Mr. Chan joined the Group in 2020. He is also a member of the audit committee and remuneration committee of the Company.

SENIOR MANAGEMENT

Mr. Lie Chi Wing, Aston, aged 42, 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. Mr. Lie is also an independent non-executive director of China Rongzhong Financial Holdings Company Limited, a company listed on the main board of the Stock Exchange (stock code: 3963). He joined the Group in 2010.

Mr. Liu Yong, aged 50, is the general manager of the Group. Mr. Liu was graduated from the Southeast University with a major in detection technology and instrument of the Department of Automatic Control and obtained an Executive Master of Business Administration from Fudan University. He studied water supply and drainage in the Southeast Jiao Tong University and was awarded the qualification of senior water supply and drainage engineer. He also holds the PRC Certified Asset Appraiser Qualification Certificate. Mr. Liu has over 20 years of senior management experience in water project design, water construction project management and water plant operation in water industry in China. He joined the Group in 2006.

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 2020, 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.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. 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.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 role of the chairman provides 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 2019 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 2020 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 2020, the Board consisted of fourteen Directors: comprising five executive Directors, namely Mr. Duan Chuan Liang (Chairman), Ms. Ding Bin, Ms. Liu Yu Jie, Mr. Li Zhong and Mr. Duan Jerry Linnan; four non-executive Directors, Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi, Mr. Makoto Inoue and Ms. Wang Xiaoqin; and five independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping, Ms. Zhou Nan and Mr. Chan Wai Cheung Admiral. Three of the independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Siu Chi Ming and Mr. Chan Wai Cheung Admiral, 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, establish corporate governance and reviews the risk management 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 risk management and 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. Except Mr. Duan Jerry Linnan is the son of Mr. Duan Chuan Liang, 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 the effective oversee of 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*)

Mr. Siu Chi Ming

Ms. Ho Ping

Ms. Zhou Nan

Mr. Chan Wai Cheung Admiral

Main functions of the Audit Committee are:

- reviewing the accounting policies and supervising the Company's financial reporting process;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements;
- monitoring the performance of both the internal and external auditors;
- assisting the Board to perform its responsibilities of risk management and internal control systems;
- overseeing the Group's risk management and internal control systems on an ongoing basis;
- reviewing and examining the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- considering major findings on risk management and internal control matters, and reports and makes recommendations to the Board; and
- ensuring the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions.

The Audit Committee is provided with sufficient resources to discharge its responsibilities. For the year ended 31 March 2020, the Audit Committee held two meetings which included the review of the final results for the year ended 31 March 2019, the interim accounts for the six months ended 30 September 2019 and the risk management and 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*)

Mr. Siu Chi Ming

Ms. Ho Ping

Ms. Zhou Nan

Mr. Chan Wai Cheung Admiral

Corporate Governance Report

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 2020, four meetings were held by the Remuneration Committee which reviewed the remuneration packages of the Directors and senior management.

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 consolidated 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 2020 is set out below:

	Number of Individuals
HK\$2,500,001 – HK\$3,000,000	2

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
 Mr. Siu Chi Ming
 Ms. Ho Ping

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. Details of the procedure for shareholders to propose a person for election as a Director are outlined in the "Nomination Policy" which is available on the Company's website.

For the year ended 31 March 2020, the Nomination Committee held four 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

Board Diversity Policy

On 28 August 2013, the Nomination Committee adopted the board diversity policy of the Company which sets out the approach to achieve diversity on the Board. The Board recognises the benefits of board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to formulate and implement the Group's business strategies. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the candidates' merits and contributions to the Board. The Nomination Committee reviews the board diversity policy, as appropriate, to ensure its effectiveness from time to time. The Company considers that the current Board composition is characterised by diversity, whether considered in terms of gender, professional background and skills.

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 2020 are set out in the following table.

	Notes	Meetings attended/(held)				General meeting
		Board	Audit Committee	Remuneration Committee	Nomination Committee	
<i>Executive Directors</i>						
Mr. Duan Chuan Liang (Chairman)		4/(4)	N/A	N/A	4/(4)	1/(1)
Ms. Ding Bin		4/(4)	N/A	N/A	N/A	0/(1)
Ms. Liu Yu Jie		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Li Zhong		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Duan Jerry Linnan	1	2/(2)	N/A	N/A	N/A	N/A
<i>Non-executive Directors</i>						
Mr. Zhao Hai Hu		4/(4)	N/A	N/A	N/A	0/(1)
Mr. Zhou Wen Zhi		2/(4)	N/A	N/A	N/A	0/(1)
Mr. Makoto Inoue		0/(4)	N/A	N/A	N/A	0/(1)
Ms. Wang Xiaoqin		3/(4)	N/A	N/A	N/A	0/(1)
<i>Independent Non-executive Directors</i>						
Mr. Chau Kam Wing		4/(4)	2/(2)	4/(4)	4/(4)	1/(1)
Mr. Siu Chi Ming		4/(4)	2/(2)	4/(4)	4/(4)	1/(1)
Ms. Ho Ping		4/(4)	2/(2)	4/(4)	4/(4)	0/(1)
Ms. Zhou Nan	2	2/(2)	1/(1)	1/(1)	N/A	N/A
Mr. Chan Wai Cheung Admiral	3	1/(1)	N/A	N/A	N/A	N/A
Mr. Ong King Keung	4	2/(2)	1/(1)	2/(2)	N/A	1/(1)

Corporate Governance Report

Notes:

1. Mr. Duan Jerry Linnan is appointed as an executive director on 15 October 2019. His attendance is presented by reference to the number of relevant meetings held during his tenure.
2. Ms. Zhou Nan is appointed as an independent non-executive director on 22 November 2019. Her attendance is presented by reference to the number of relevant meetings held during her tenure.
3. Mr. Chan Wai Cheung Admiral is appointed as an independent non-executive director on 15 January 2020. His attendance is presented by reference to the number of relevant meetings held during his tenure.
4. Mr. Ong King Keung resigned as an independent non-executive director on 22 November 2019. 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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 March 2020, 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, 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 2020.

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 2020, 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 is the 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 2020.

Corporate Governance Report

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors are responsible for the preparation of accounts for each financial year 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 year. 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 appropriate 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 pages 36 to 43 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's risk management framework and the responsibilities of each delegated group within it are as follows:

Board

- determines the business strategies and objectives of the Group, and evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- reviews the accounting policies and supervises the Company's financial reporting process;
- ensures compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements;
- monitors the performance of both the internal and external auditors;
- assists the Board to perform its responsibilities of risk management and internal control systems;
- oversees the Group's risk management and internal control systems on an ongoing basis;
- reviews and examines the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board; and
- ensures the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions.

Corporate Governance Report

Management

- designs, implements and maintains appropriate and effective risk management and internal control systems;
- identifies, evaluates and manages the risks that may potentially impact the major processes of the operations;
- monitors risks and takes measures to mitigate risks in day-to-day operations;
- follow up the findings on risk management and internal control matters raised by the internal audit team and take prompt remedial action to improve the systems; and
- provides confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Team

- reviews the adequacy and effectiveness of the Group's risk management and internal control systems; and
- reports to the Audit Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified.

The Group's internal audit function is performed by an internal audit team and it plays an important part in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports directly to the Audit Committee. The team conducts internal audit reviews on material internal control systems covering major financial, operational and compliance controls, as well as risk management functions. The internal audit team reports to the Audit Committee on a regular basis and recommends remedial plans to management for any internal control deficiencies identified. The team monitors the implementation of its recommendations by the management and reports the outcome to the Audit Committee.

The Board has reviewed the effectiveness of the Group's risk management and internal control systems and considered them to be effective and adequate during the year under review.

HANDLING INSIDE INFORMATION

An information disclosure policy is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- designated reporting channels from different operations informing any potential inside information to designated departments;
- designated persons and departments to seek appropriate external professional advices and determine further escalation and disclosure as required; and
- designated persons authorised to act as spokespersons and respond to external enquiries.

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration payable by the Company to its auditor, PricewaterhouseCoopers ("PwC"), for the year ended 31 March 2020 amounted to HK\$8,830,000 (2019: HK\$7,430,000). HK\$310,000 (2019: HK\$50,000) was paid for other non-audit services provided by PwC to the Company and its subsidiaries during the year ended 31 March 2020.

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.

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 2020, there had not been any changes in the Company's constitutional documents.

DIVIDEND POLICY

The Company has adopted a dividend policy of distributing to its shareholders all funds surplus to the operating needs of the Group as determined by the Board with a target dividend payout ratio in respect of each financial year of not less than 30% of its basic earnings per share.

The distribution of dividend depends on, among others, the Group's current and future operations, operating results, liquidity position, capital requirements, the interests of the shareholders, dividends received from the Company's subsidiaries and associate companies, and other factors that the Board considered relevant.

Directors' Report

The Directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 48 to the consolidated financial statements.

Business review and prospects of the Group are set out on pages 9 to 10.

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 172 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2020 and its financial position at that date are set out in the financial statements on pages 44 to 168. The Directors recommended a final dividend of HK16 cents (2019: HK16 cents) per ordinary share, which is subject to the approval by the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 4 September 2020 and will be payable on or about Friday, 16 October 2020 to the shareholders whose names appear on the register of members on Friday, 11 September 2020.

CLOSURE OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 1 September 2020 to Friday, 4 September 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Friday, 4 September 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 31 August 2020.

For Entitlement to Proposed Final Dividend

The register of members will be closed from Thursday, 10 September 2020 to Friday, 11 September 2020, during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 9 September 2020. Subject to the approval by shareholders of the Company at the forthcoming annual general meeting, the proposed final dividend will be paid on or around Friday, 16 October 2020.

Directors' Report

KEY RISKS AND UNCERTAINTIES

Our Group's financial position, results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future:

(i) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To manage and reduce the risk, (i) responsibility for managing operational risks basically rests with every function at divisional and departmental levels; (ii) key functions in our Group are guided by their standard operating procedures and management system; (iii) our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken; and (iv) our internal audit team will review the adequacy and effectiveness of the Group's risk management and internal control systems regularly.

(ii) Liquidity risk

Liquidity risk is the potential that our Group will be unable to meet obligations of the loan agreements. Any failure to comply the terms and conditions of the loan agreements may constitute events of default. If an event of default occurs, the bank or syndicate of banks may declare any commitment under the loan agreements to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all others sums to be immediately due and payable or payable on demand. To reduce the risk, (i) the Group pays attention and monitor closely to ensure the compliance of the terms and conditions of the loan agreements; and (ii) actively monitors cash flows and ensure sufficient cash level is in place to meet operation needs and commitment.

(iii) Legal and regulatory compliance risk

Our businesses success and operations could be impacted by the change of respective government laws and regulation in PRC. Any failure to anticipate the trend of regulatory changes or cope with relevant requirement may result in non-compliance of local laws or regulations, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, (i) the Group pays close attention to the relevant regulatory and legislative developments of the markets it operates; and (ii) actively monitors and consults with external advisers and regulators of the markets on changes which could impact on our businesses.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is engaged in clean and green business. The Group is committed to the sustainable development of the environment and our society. The Group has endeavoured to comply with laws and regulations regarding water supply and environmental protection and adopted effective environmental policies to ensure its projects meet the required standards and ethics.

The Group takes energy saving and consumption reduction as a fundamental management task, which will be applied across the Group in the course of production, operation and management. For example:

The Group takes a prudent approach regarding the site selection of water plants

Upon site selection of water plants, we prioritise sites that enable gravity flow water distribution to minimise power consumption in water intake and water distribution.

The Group carries out process upgrade

The Group gradually carries out reconstruction or upgrade of water plants that have been operating for long years with obsolete process, and introduces a large number of new processes and energy efficient equipment.

The Group reduces pipeline leakage and enhance water supply efficiency

Through upgrade and renovation of pipeline network and establishment of appraisal and incentive system to reduce pipeline leakage, the Group maximises the economic benefit of energy consumption.

The Group increases the use of clean energy

The Group makes use of the open space in certain plants and rooftop of the buildings for the installation of solar panels to reduce power consumption.

In addition, the Group regards emission reduction and compliance as one of the key areas in fulfilling its environmental protection responsibilities and endeavours to raise the awareness on environmental protection through publicity and guidance among its employees and reduce the impacts of emissions on the environment by strengthening technology and management tools.

The Group has in place special standards for management of general wastes that have a smaller impact on the environment and human health, and has a comprehensive set of management processes and operational procedures regarding the identification, discharge and regulation of wastes to ensure compliance with waste emission. With respect to the hazardous wastes produced in the industrial sewage treatment plants, qualified professional companies are engaged to deal with them.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Group is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year and up to the date of this report. Any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

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 consolidated financial statements respectively. Further details of the Group's investment properties are set out on page 169.

Directors' Report

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2020, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/Year	Number of shares repurchased	Highest price per share HK\$	Lowest price per share HK\$	Aggregate consideration (excluding expenses) HK\$
July 2019	3,758,000	7.46	6.99	27,008,000
August 2019	1,114,000	6.98	6.08	7,209,000

During the year ended 31 March 2020, the Company repurchased and cancelled a total of 4,872,000 ordinary shares of HK\$0.01 each in the capital of the Company. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the contributed surplus of the Company.

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, sold or redeemed 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 notes 47 and 41 to the consolidated 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 47 to the consolidated financial statements. The Company's reserves available for distribution to members at 31 March 2020 amounted to HK\$147,201,000 (2019: HK\$680,987,000) which comprised contributed surplus of HK\$147,201,000 (2019: HK\$661,918,000) and retained earnings of HK\$Nil (2019: HK\$19,069,000).

Directors' Report

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.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHER PARTIES

The Group is of the view that it has been maintaining a good relationship with the following key stakeholders of the Group:

- employees and workers
- customers and suppliers
- governments
- bankers

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

Ms. Liu Yu Jie

Mr. Li Zhong

Mr. Duan Jerry Linnan (appointed on 15 October 2019)

Non-executive Directors

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi

Mr. Makoto Inoue

Ms. Wang Xiaoqin

Independent Non-executive Directors

Mr. Chau Kam Wing

Mr. Siu Chi Ming

Ms. Ho Ping

Ms. Zhou Nan (appointed on 22 November 2019)

Mr. Chan Wai Cheung Admiral (appointed on 15 January 2020)

Mr. Ong King Keung (resigned on 22 November 2019)

In accordance with the Company's Bye-laws, Mr. Duan Jerry Linnan, Mr. Makoto Inoue, Mr. Chau Kam Wing, Ms. Ho Ping, Ms. Zhou Nan and Mr. Chan Wai Cheung Admiral 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.

The biographical details of Directors and senior management are set out on pages 13 to 16.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

As at 31 March 2020, except for Mr. Li Zhong who entered into service contract with the Company with no fixed term of period, none of the Directors has entered into any service contracts with the Company or any other member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed elsewhere in the financial statements, no Director or his/her connected party had a material interest, either direct or indirect, in any transactions, arrangements and contracts 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 interest 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' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 2020, 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 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 of the Company

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 (Notes (i)&(ii))	Corporate and personal	470,880,301	–	29.36%
Ms. Ding Bin	Personal	5,700,000	–	0.36%
Ms. Liu Yu Jie	Personal	12,000,000	–	0.75%
Mr. Li Zhong (Notes (iii)&(iv))	Personal	37,627,457	–	2.35%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.27%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.05%
Ms. Wang Xiaoqin	Personal	8,950,000	–	0.56%
Ms. Ho Ping	Personal	978,000	–	0.06%

Directors' Report

Underlying shares of Kangda International Environmental Company Limited ("Kangda International"), an associated corporation of the Company (Note (v))

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in Kangda International
		Long position	Short position	
Mr. Li Zhong	Personal	10,000,000	–	0.49%
Ms. Liu Yu Jie	Personal	10,000,000	–	0.49%
Mr. Duan Jerry Linnan	Personal	10,000,000	–	0.49%
Mr. Chau Kam Wing	Personal	2,000,000	–	0.10%

Notes:

- (i) These 470,880,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited ("AFRL"), which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 252,836,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) Mr. Duan Chuan Liang is also interested in USD3,000,000 senior notes of the Company due 2022 through AFRL.
- (iii) These 37,627,457 shares consist of 8,420,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.
- (iv) Mr. Li Zhong is also interested in 0.64% equity interest in Shenzhen Gold Tact Environmental Holdings Co. Ltd (a non-wholly owned subsidiary of the Company) through Total Happy Investment Limited, his controlled corporation.
- (v) Being options to acquire ordinary shares of Kangda International, and further details of which are set out in the section headed "Share Option Scheme" in the published annual report of Kangda International for the year ended 31 December 2019.

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 consolidated financial statements. As at 31 March 2020, 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' Report

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.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

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 consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2020, 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	470,880,301	-	-	29.36%	-	-
Asset Full Resources Limited (note)	Beneficial	218,044,301	-	-	13.59%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	18.15%	-	-

Note: These shares are beneficially owned by AFRL, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Mr. Duan Chuan Liang, the Chairman and executive Director of the Company.

Save as disclosed above, as at 31 March 2020, 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.

PERMITTED INDEMNITY PROVISION

At no time during the year and up to the date of this report, no Directors and officers shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his or her office or in relation thereto.

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company throughout the year ended 31 March 2020.

CONNECTED TRANSACTIONS

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 Rule.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 45 to the consolidated 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 2020.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the significant event of the Group took place subsequent to 31 March 2020 are set out in note 49 to the consolidated financial statements.

Directors' Report

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 17 to 25.

AUDITOR

The financial statements of the Company were audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Duan Chuan Liang

Chairman

Hong Kong, 29 June 2020

Independent Auditor's Report



羅兵咸永道

TO THE SHAREHOLDERS OF CHINA WATER AFFAIRS GROUP LIMITED

(originally incorporated in the Cayman Islands and re-domiciled in Bermuda with limited liability)

OPINION

What 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 44 to 168, which comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Accounting for the service concession arrangements
- Impairment assessment of other intangible assets and goodwill

Key Audit Matter

How our audit addressed the Key Audit Matter

1. Accounting for the service concession arrangements

Refer to notes 2.16, 6, 22 and 29 to the consolidated financial statements

- (a) Applicability of HK(IFRIC) Interpretation 12 – Service Concession Arrangements (“HK(IFRIC) Int. 12”)

The Group entered into a number of service concession arrangements with certain government authorities in the People’s Republic of China (the “PRC”) in respect of its water supply business.

In preparing the consolidated financial statements for the year ended 31 March 2020, management has reassessed these service concession agreements as to whether the conditions under HK(IFRIC) Int. 12 were fulfilled such that the service concession arrangements should be accounted for in accordance with HK(IFRIC) Int. 12.

Our procedures in relation to management’s accounting for the service concession arrangements included:

- Evaluating whether the service concession arrangements of previously acquired entities continually fulfil the conditions under HK(IFRIC) Int. 12 by inquiring the management and reviewing pertinent board meeting minutes;
- Evaluating whether the service concession arrangements of newly acquired entities fulfil the conditions under HK(IFRIC) Int. 12 by:
 - Reading the concession agreements and other relevant documents, including legal opinions, of the Group’s water supply business; and
 - Assessing the detailed analysis made by management on the terms of the service concession arrangements, particularly with regard to whether the Group or the grantors control the residual interests in the water supply infrastructures at the end of the service concession period, by reference to the relevant clauses in the concession agreements.

Independent Auditor's Report

Key Audit Matter

- (b) Recognition of revenue and costs relating to construction or upgrade services in connection with water supply infrastructure

Revenue from construction services under the terms of the service concession agreements is estimated on a cost-plus basis with reference to a market rate of gross margin at the date of agreement applicable to similar construction services rendered in the PRC.

The market rate of gross margin was determined based on the research and analysis performed by the management, with reference to the gross profit margins of market comparable companies and the management concluded that there was no significant change in the gross profit margin.

We have identified the accounting for service concession arrangements as a key audit matter because of its financial significance to the consolidated financial statements. Determination of appropriate accounting for these service concession arrangements also requires use of significant judgements and estimates from management. Significant effort is required in auditing these areas.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's recognition of revenue and costs relating to construction or upgrade services in connection with water supply infrastructure included:

- Evaluating the reasonableness of the gross profit margin adopted by the management by referencing to the analysis of the disclosure of gross profit margin of the comparable companies; and
- Evaluating the appropriateness of the disclosures made in the consolidated financial statements relating to the accounting treatment of the service concession arrangements.

Based on the audit procedures performed, we found that the accounting treatments for the service concession arrangements made by management to be acceptable based on the available evidence.

Independent Auditor's Report

Key Audit Matter

2. Impairment assessments of other intangible assets and goodwill

Refer to notes 2.9, 2.10, 21 and 22 to the consolidated financial statements

As at 31 March 2020, the carrying amounts of other intangible assets and goodwill amounted to HK\$17,558.1 million and HK\$1,320.0 million respectively.

Other intangible assets are subject to impairment assessments when there is an indication of impairment. Goodwill is subject to impairment assessment at least annually and when there is an indication of impairment.

The Group's other intangible assets mainly relate to its city water supply operations. During the year ended 31 March 2020, management considered whether there is an indication of impairment for the Group's other intangible assets with reference to the financial performance of the respective entities as compare to their business plans.

The Group's goodwill mainly relates to its city water supply, sewage treatment and drainage and gas sales operations.

Management determined the recoverable amounts of the cash-generating unit based on value-in-use calculations which involve judgements and assumptions in particular on the future business growth driven by town and population planning, forecast city water and gas tariffs and sewage charges, raw water, gas and electricity costs and discount rates, etc.

Based on the results of the impairment assessments, management concluded that there was no impairment of the other intangible assets and goodwill as at 31 March 2020.

How our audit addressed the Key Audit Matter

We evaluated management's assessments as to whether any indication of impairment exist in other intangible assets by:

- Obtaining management's analysis of the indications of impairment and understood management's rationale for the analysis; and
- Assessing management's analysis by comparing the financial performance of certain entities against their business plan.

Our procedures in relation to management's impairment assessments of other intangible assets and goodwill included:

- Assessing the reasonableness of the key assumptions of the value-in-use calculations by:
 - Comparing the forecast against current year business result to assess if there is any inconsistency in the revenue and costs structure;
 - Evaluating the future business growth with reference to the town and population planning published by the corresponding county or city government and the capacity expansion plan of the related project; and
 - Evaluating the forecast city water and gas tariffs, sewage charges, raw water, gas and electricity costs with reference to the current year level, price information published by the government, estimated inflation rate and available market forecast.

Independent Auditor's Report

Key Audit Matter

As the assessment of indication of impairment for other intangible assets, and the value-in-use calculations for impairment assessments of other intangible assets and goodwill required the use of significant judgements and estimates from management, we considered it as a key audit matter.

How our audit addressed the Key Audit Matter

- Evaluating the reasonableness of the estimated value-in-use calculations and the discount rate applied;
- Checking the mathematical accuracy of the value-in-use calculations;
- Evaluating the sensitivity analysis performed by management on the key assumptions as stated above and assessed the potential impacts of a range of possible outcomes; and
- Evaluating the appropriateness of the disclosures made in the consolidated financial statements.

Based on the audit procedures performed, we found that management's assessment on whether any indication of impairment exists in respect of other intangible assets and the impairment assessments for other intangible assets and goodwill to be supportable by available evidence.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Cho Kin Lun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 June 2020

Consolidated Income Statement

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	7	8,694,303	8,302,211
Cost of sales		(4,935,818)	(4,838,372)
Gross profit		3,758,485	3,463,839
Other income	7	370,563	300,258
Selling and distribution costs		(199,135)	(191,436)
Administrative expenses		(735,335)	(655,232)
Other operating expenses		(13,121)	(13,067)
(Loss)/gain on disposal of subsidiaries, net	43	(348)	117,841
Operating profit	9	3,181,109	3,022,203
Finance costs	10	(429,215)	(319,185)
Share of results of associates	19	412,615	69,041
Profit before income tax		3,164,509	2,772,059
Income tax expense	11	(657,220)	(641,776)
Profit for the year		2,507,289	2,130,283
Profit for the year attributable to:			
Owners of the Company		1,639,495	1,369,235
Non-controlling interests		867,794	761,048
		2,507,289	2,130,283
Earnings per share for profit attributable to owners of the Company during the year		HK cents	HK cents
Basic		102.12	85.10
Diluted		102.12	85.10

The notes on pages 53 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
Profit for the year	2,507,289	2,130,283
Other comprehensive (loss)/income		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	(832,644)	(473,983)
– Recycling of currency translation differences upon disposal of subsidiaries	(258)	(3,865)
<i>Items that will not be reclassified to profit or loss:</i>		
– Change in fair value of financial assets at fair value through other comprehensive income	2,964	60,000
– Share of other comprehensive loss of an associate	(1,814)	–
Other comprehensive loss for the year, net of tax	(831,752)	(417,848)
Total comprehensive income for the year	1,675,537	1,712,435
Total comprehensive income attributable to:		
Owners of the Company	1,008,628	1,080,910
Non-controlling interests	666,909	631,525
	1,675,537	1,712,435

The notes on pages 53 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	2,224,200	2,019,900
Prepaid land lease payments	17(a)	–	901,423
Right-of-use assets	17(b)	1,297,830	–
Investment properties	18	1,031,042	912,335
Interests in associates	19	2,227,812	676,035
Financial assets at fair value through other comprehensive income	20	358,285	349,225
Goodwill	21	1,320,004	1,220,394
Other intangible assets	22	17,558,146	15,293,235
Prepayments, deposits and other receivables	23	894,863	1,500,105
Contract assets	24	670,545	540,779
Receivables under service concession arrangements	29	1,031,570	1,079,365
		28,614,297	24,492,796
Current assets			
Properties under development	25	1,505,720	1,273,890
Properties held for sale	26	751,533	816,189
Inventories	27	630,394	530,990
Contract assets	24	295,993	233,484
Receivables under service concession arrangements	29	62,361	61,967
Trade and bills receivables	28	1,324,787	1,242,864
Financial assets at fair value through profit or loss	30	292,135	489,340
Due from non-controlling equity holders of subsidiaries	36	211,072	288,194
Due from associates	19	13,411	227,416
Prepayments, deposits and other receivables	23	1,597,350	1,549,667
Pledged deposits	31	963,236	644,524
Cash and cash equivalents	31	5,640,664	3,973,315
		13,288,656	11,331,840
Current liabilities			
Lease liabilities		30,966	–
Contract liabilities	32	906,157	648,134
Trade and bills payables	33	3,106,708	2,410,098
Accrued liabilities, deposits received and other payables	34	2,482,964	1,979,082
Due to associates	19	121,805	46,093
Borrowings	35	4,090,990	3,437,483
Due to non-controlling equity holders of subsidiaries	36	163,642	219,048
Provision for tax		1,432,744	1,278,874
		12,335,976	10,018,812
Net current assets		952,680	1,313,028
Total assets less current liabilities		29,566,977	25,805,824

Consolidated Statement of Financial Position

As at 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current liabilities			
Borrowings	35	13,298,027	11,494,131
Lease liabilities		335,379	–
Contract liabilities	32	276,453	273,133
Due to non-controlling equity holders of subsidiaries	36	412,979	27,784
Deferred government grants	37	202,213	225,583
Deferred tax liabilities	38	943,423	882,723
		15,468,474	12,903,354
Net assets			
		14,098,503	12,902,470
EQUITY			
Equity attributable to owners of the Company			
Share capital	39	16,040	16,089
Reserves	41	8,491,670	7,954,377
		8,507,710	7,970,466
Non-controlling interests			
		5,590,793	4,932,004
Total equity			
		14,098,503	12,902,470

The consolidated financial statements on pages 44 to 168 were approved and authorised for issue by the board of directors on 29 June 2020 and are signed on its behalf by:

Duan Chuan Liang
Director

Ding Bin
Director

The notes on pages 53 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

Equity attributable to owners of the Company

	Share capital HK\$'000	Proposed final dividend HK\$'000	Share premium account HK\$'000 (note 41)	Capital redemption reserve HK\$'000 (note 41)	Contributed surplus HK\$'000 (note 41)	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000 (note 41)	Other reserves HK\$'000 (note 41)	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000 (note 41)	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2018	16,089	241,335	995,193	3,064	117,217	353,809	96,808	(326,786)	48,617	354,751	5,317,104	7,217,201	3,985,825	11,203,026
Share premium reduction	-	-	(995,193)	-	995,193	-	-	-	-	-	-	-	-	-
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	229,461	229,461
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	(33,344)	-	-	-	(33,344)	(36,619)	(69,963)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(6,346)	6,346	-	(163,992)	(163,992)
Deemed disposal of subsidiaries	-	-	-	-	-	-	-	140,102	-	-	-	140,102	336,468	476,570
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	163,188	163,188
Final dividend 2018 (note 13)	-	(241,335)	-	-	-	-	-	-	-	-	-	(241,335)	-	(241,335)
Interim dividend 2019 (note 13)	-	-	-	-	(193,068)	-	-	-	-	-	-	(193,068)	-	(193,068)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(213,852)	(213,852)
Transactions with owners	-	(241,335)	(995,193)	-	802,125	-	-	106,758	-	(6,346)	6,346	(327,645)	314,654	(12,991)
Proposed final dividend 2019 (note 13)	-	257,424	-	-	(257,424)	-	-	-	-	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	130,788	(130,788)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	1,369,235	1,369,235	761,048	2,130,283
Other comprehensive (loss)/income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	60,000	-	-	60,000	-	60,000
- Currency translation	-	-	-	-	-	(344,460)	-	-	-	-	-	(344,460)	(129,523)	(473,983)
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	(3,865)	-	-	-	-	-	(3,865)	-	(3,865)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(348,325)	-	-	60,000	-	1,369,235	1,080,910	631,525	1,712,435
Balance at 31 March 2019	16,089	257,424	-	3,064	661,918	5,484	96,808	(220,028)	108,617	479,193	6,561,897	7,970,466	4,932,004	12,902,470

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

Equity attributable to owners of the Company

	Share capital HK\$'000	Proposed final dividend HK\$'000	Capital redemption reserve HK\$'000 (note 41)	Contributed surplus HK\$'000 (note 41)	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000 (note 41)	Other reserves HK\$'000 (note 41)	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000 (note 41)	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2019	16,089	257,424	3,064	661,918	5,484	96,808	(220,028)	108,617	479,193	6,561,897	7,970,466	4,932,004	12,902,470
Share repurchase (note 39)	(49)	-	-	(34,168)	-	-	-	-	-	-	(34,217)	-	(34,217)
Share repurchase expense	-	-	-	(119)	-	-	-	-	-	-	(119)	-	(119)
Arising from acquisition of subsidiaries (note 42)	-	-	-	-	-	-	-	-	-	-	-	202,700	202,700
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	41,657	-	-	-	41,657	(117,036)	(75,379)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(140)	(140)
Deemed disposal of subsidiaries	-	-	-	-	-	-	2,504	-	-	-	2,504	(2,504)	-
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	128,173	128,173
Final dividend 2019 (note 13)	-	(257,424)	-	779	-	-	-	-	-	-	(256,645)	-	(256,645)
Interim dividend 2020 (note 13)	-	-	-	(224,564)	-	-	-	-	-	-	(224,564)	-	(224,564)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(219,313)	(219,313)
Transactions with owners	(49)	(257,424)	-	(258,072)	-	-	44,161	-	-	-	(471,384)	(8,120)	(479,504)
Proposed final dividend 2020 (note 13)	-	256,645	-	(256,645)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve (note 41)	-	-	49	-	-	-	-	-	-	(49)	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	151,917	(151,917)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	1,639,495	1,639,495	867,794	2,507,289
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 20(ii))	-	-	-	-	-	-	-	2,964	-	-	2,964	-	2,964
- Currency translation	-	-	-	-	(631,759)	-	-	-	-	-	(631,759)	(200,885)	(832,644)
- Share of other comprehensive income/(loss) of an associate	-	-	-	-	-	-	3,543	(5,357)	-	-	(1,814)	-	(1,814)
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	(258)	-	-	-	-	-	(258)	-	(258)
Total comprehensive (loss)/income for the year	-	-	-	-	(632,017)	-	3,543	(2,393)	-	1,639,495	1,008,628	666,909	1,675,537
Balance at 31 March 2020	16,040	256,645	3,113	147,201	(626,533)	96,808	(172,324)	106,224	631,110	8,049,426	8,507,710	5,590,793	14,098,503

The notes on pages 53 to 168 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from operating activities			
Profit before income tax		3,164,509	2,772,059
Adjustments for:			
Finance costs	10	429,215	319,185
Share of results of associates	19	(412,615)	(69,041)
Interest income	7	(119,337)	(96,487)
Dividend income from financial assets	7	(13,566)	(8,833)
Amortisation of deferred government grants	7	(9,176)	(8,158)
Depreciation of property, plant and equipment	9	73,155	57,013
Depreciation of right-of-use assets	9	67,475	–
Amortisation of prepaid land lease payments	9	–	23,601
Amortisation of other intangible assets	9	479,145	403,901
Amortisation of capitalised expenses		46,079	37,415
Gain on disposal of property, plant and equipment, net	9	(7,532)	(4,874)
Loss on disposal of investment properties		460	–
Property, plant and equipment written off	9	551	1,079
Other intangible assets written off		–	1,088
Bad debts written off	9	1,427	–
Loss/(gain) on disposal of subsidiaries, net	43	348	(117,841)
Fair value loss on financial assets at fair value through profit or loss		–	96
Gain on disposal of financial assets at fair value through profit or loss, net		(70)	–
Construction margin for construction and upgrade services in relation to water supply and sewage treatment infrastructure		(325,995)	(281,153)
Operating profit before working capital changes		3,374,073	3,029,050
Increase in properties under development		(417,211)	(264,577)
Decrease in properties held for sale		156,523	71,186
Increase in inventories		(98,282)	(181,478)
Increase in contract assets		(227,074)	(774,263)
Increase in receivables under service concession arrangements		(3,895)	(30,820)
Increase in trade and bills receivables		(121,973)	(213,537)
Decrease/(increase) in amounts due from non-controlling equity holders of subsidiaries		41,610	(20,046)
Decrease/(increase) in prepayments, deposits and other receivables		88,431	(689,667)
Increase in contract liabilities		299,201	376,151
Increase in trade and bills payables		776,877	767,747
Increase/(decrease) in accrued liabilities, deposits received and other payables		389,786	(370,877)
Cash generated from operations		4,258,066	1,698,869
Interest paid for bank and other loans		(410,157)	(319,185)
Interest paid on lease liabilities		(19,058)	–
Income taxes paid		(416,000)	(361,636)
Net cash generated from operating activities		3,412,851	1,018,048

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from investing activities			
Interest received		119,337	96,487
Dividend received from financial assets		13,566	8,833
Purchase of property, plant and equipment	16	(258,689)	(224,615)
Proceeds from disposal of property, plant and equipment		8,129	45,862
Purchase of right-of-use assets – land lease payments		(63,965)	–
Land lease payments prepaid	17(a)	–	(35,706)
Proceeds from disposal of right-of-use assets		1,046	–
Proceeds from disposal of prepaid land lease payments		–	6,556
Purchase of investment properties	18	(167,126)	(35,119)
Proceeds from disposal of investment properties		6,956	–
Purchase of financial assets at fair value through other comprehensive income		(3,660)	(13,701)
Purchase of financial assets at fair value through profit or loss		–	(92,306)
Proceeds from disposal of financial assets at fair value through profit or loss		175,283	–
Additions of water supply and sewage treatment concession rights		(2,786,819)	(2,338,396)
Proceeds from disposal of other intangible assets		10,565	–
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	42	(31,858)	(379,792)
Disposal of subsidiaries (net of cash and cash equivalent disposed)	43	1,688	(12,134)
Investments in associates		(764,602)	–
Proceeds from disposal of an associate		64,304	588
Dividends received from associates		11,568	44,273
Decrease in amounts due from associates		116,009	318,099
Increase in prepayments, deposits and other receivables		(54,682)	(702,380)
Deferred government grants received		2,290	37,294
Increase in pledged deposits		(338,972)	(93,646)
Net cash used in investing activities		(3,939,632)	(3,369,803)

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from financing activities			
Payment for repurchase of ordinary shares		(34,336)	–
Acquisition of additional interests in subsidiaries		(33,364)	(3,141)
Capital contribution by non-controlling equity holders of subsidiaries		82,562	635,132
Advance from/(repayment of) amounts due to non-controlling equity holders of subsidiaries		95,410	(298,970)
Advance from amounts due to associates		38,587	16,486
Repayment of lease liabilities		(35,097)	–
Drawdown of bank loans		5,765,690	7,048,707
Repayment of bank loans		(2,889,935)	(2,871,155)
Drawdown of other loans		309,250	403,120
Repayment of other loans		(623,512)	(686,512)
Dividend paid		(481,209)	(434,403)
Net cash generated from financing activities		2,194,046	3,809,264
Net increase in cash and cash equivalents		1,667,265	1,457,509
Cash and cash equivalents at beginning of year		3,973,315	2,511,390
Effect of foreign exchange rates, net		84	4,416
Cash and cash equivalents at end of year	31	5,640,664	3,973,315

The notes on pages 53 to 168 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

These financial statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 June 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policies and disclosures

(a) *New standard, amendments to standards and interpretation adopted*

During the year, the Group adopted the following new standard, amendments to standards and interpretation which are relevant to the Group's operation and are mandatory for the year ended 31 March 2020.

Annual Improvements Project	Annual Improvements to 2015-2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments

The Group had changed its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new standard retrospectively but has not restated the comparative information as of 1 April 2019. This is disclosed in note 3 to the consolidated financial statements. The other amendments to standards and interpretation adopted by the Group did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) *New standards and amendments to standards that have been issued but are not effective for the financial year beginning on 1 April 2019 and have not been early adopted*

The following standards and amendments to standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2020 or later periods, but the Group has not early adopted them.

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 16 (Amendments)	Leases	1 June 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment of the impact of these new standard and amendments to standards and is not yet in a position to state whether they would have a significant impact on the Group's results and financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

(a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(b) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) *Business combinations (Continued)*

Intra group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(e) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, which are the Group's chief operating decision-maker 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) "City water supply operation and construction" involves the provision of water supply operation and construction services;
- (ii) "Environmental protection" involves the provision of sewage treatment and drainage operation and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management; and
- (iii) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments".

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 consolidated financial statements prepared under HKFRSs, except that finance costs, share of results of associates, corporate income, corporate expense, income tax expense and (loss)/gain on disposal of subsidiaries, net are excluded from segment results.

Segment assets exclude corporate assets (mainly comprises cash and cash equivalents and pledged deposits), financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and interests in associates. Segment liabilities exclude items such as taxation and other corporate liabilities (mainly comprises corporate borrowings).

Unallocated corporate income mainly comprises interest income and dividend income from financial assets.

Unallocated corporate expenses mainly comprise salaries and wages, operating leases and other operating expenses of the Company and the investment holding companies.

No asymmetrical allocations have been applied to reportable segments.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar (HK\$), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within 'finance income or finance costs'. All other foreign exchange gains and losses are presented in the consolidated income statement within "administrative expenses".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the interests of the Company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in associates that do not result in the Group losing significant influence) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is 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 repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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
Leasehold improvements	5 years
Plant and machinery	6 to 30 years
Furniture, equipment and motor vehicles	5 years
Vessels	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income" in the consolidated income statement.

2.7 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the term of the lease/right of use. From 1 April 2019, prepaid land lease payments were reclassified to right-of-use assets due to the adoption of HKFRS 16. This is disclosed in note 3 to the consolidated financial statements.

2.8 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Investment properties (Continued)

After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers or the Group. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Changes in fair values are recorded in the consolidated income statement as “fair value gain on investment properties”. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the consolidated income statement to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increases directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to the consolidated income statement.

Where an investment property undergoes a change in use, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

For a transfer from properties under development or property held for sale to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in consolidated income statement. Transfers to investment property shall be made when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party. The commencement of an operating lease is generally an evidence of a change in use. A change in use has occurred is based on an assessment of all relevant facts and circumstances. The relevant facts include but not limited to the Group's business plan, financial resources and legal requirements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at not higher than operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.10 Intangible assets (other than goodwill)

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

The Group’s intangible assets (other than goodwill) represent the rights to operate sewage treatment infrastructures and water supply infrastructures in the People’s Republic of China (the “PRC”). These intangible assets are amortised on a straight-line basis over the terms of operation ranging from 10 to 50 years. Both period and method of amortisation are reviewed annually.

Intangible assets with finite useful lives are tested for impairment as described in note 2.11 to the consolidated financial statements.

2.11 Impairment of non-financial assets and interests in associates

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial investments and other financial assets

2.12.1 Classification

The Group classifies its financial investments and other financial assets either those to be measured subsequently at fair value (either through other comprehensive income (“OCI”), or through profit or loss), or those to be measured at amortised cost. The classification depends on the entity’s business model for managing the financial investments and other financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in consolidated income statement or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through OCI (“FVOCI”).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial investments and other financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial investments and other financial assets are derecognised when the rights to receive cash flows from the financial investments and other financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial investments and other financial assets (Continued)

2.12.3 Measurement

At initial recognition, the Group measures a financial investment and other financial asset at its fair value plus, in the case of financial investments and other financial assets not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial investments and other financial assets. Transaction costs of financial investments and other financial assets carried at FVPL are expensed in consolidated income statement.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial investments and other financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in consolidated income statement and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial investments and other financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in consolidated income statement. When the financial investment and other financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated income statement and recognised in other gains/(losses). Interest income from these financial investments and other financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in administrative expenses and impairment expenses are presented as separate line item in the consolidated income statement.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in consolidated income statement in the period in which it arises.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial investments and other financial assets (Continued)

2.12.3 Measurement (Continued)

(b) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in consolidated income statement as other income when the Group's right to receive payments is established.

Changes in the fair value of financial investments and other financial assets at FVPL are presented as separate line item in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables and contract assets.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in external credit rating of the debtors;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet their obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtor; and
- significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors and changes in the operating results of the debtors.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial investments and other financial assets (Continued)

2.12.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Further information about the Group's accounting for trade receivables and the Group's impairment policies are described in note 2.12.4 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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 is recognised at its fair value as a financial asset or an intangible asset.

A financial asset (receivable under service concession arrangements) 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.

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 (receivable under service concession arrangements) is accounted for in accordance with the policy set out for "Financial investments and other financial assets" in note 2.12 to the consolidated financial statements.

An intangible asset (other intangible assets) 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 (other intangible assets) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" in note 2.10 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Service concession arrangements (Continued)

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

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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion and in the amount recognised under service concession agreements. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the “percentage-of-completion” method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated statement of financial position, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

The fair value of the construction and upgrade services under the concession arrangement is calculated as the estimated total construction cost plus a profit margin. The profit margins are valued by an independent qualified valuer, based on prevailing market rate applicable to similar construction services rendered in similar location at date of agreement.

Revenue relating to construction or upgrade services are accounted for in accordance with the policy set out for “Revenue recognition” in note 2.25 to the consolidated financial statements.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for “Revenue recognition” in note 2.25 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Service concession arrangements (Continued)

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

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the water supply infrastructures and sewage treatment infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures 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 water supply infrastructures and sewage treatment infrastructures are recognised and measured in accordance with the policy set out for “Provisions” in note 2.19 to the consolidated financial statements.

2.17 Government grants

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

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.19 Provisions

Provisions for environmental restoration, restructuring costs, and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Leases

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in this section and the impact of the change in note 3 to the consolidated financial statements.

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (note 44). Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Leases (Continued)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.22 Trade payables

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.23 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

2.24 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer. This may be at a single point in time or over time.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- when the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- when the Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.

If none of the above conditions are met, the Group recognises revenue at a single point in time at which the performance obligation is satisfied for the sale of that good or service when control has been passed. If control of the product or service transfers over time, revenue is recognised over the period of the contract by measuring the progress towards complete satisfaction of that performance obligation. Revenue is recognised as follows:

- (i) Revenues from the city water supply and gas sales are recognised at the point in time when control of the asset is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the water and gas and the Group has present right to payment and the collection of the consideration is probable;
- (ii) Revenue from long-term construction contracts is recognised over time by reference to the progress towards complete satisfaction of the service. The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract;
- (iii) Revenue from sewage treatment and drainage operation is recognised over the period when the services are rendered and the Group's performance provides all of the benefits received and consumed simultaneously by the customer;

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

- (iv) Water supply related construction income and sewage treatment construction income is recognised over time when services are rendered;
- (v) Revenue from sale of properties is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property;
- (vi) Sales of goods is recognised at the point in time when the control of the product is transferred to the customer which generally coincides with delivery and acceptance of the product sold;
- (vii) Revenue from hotel services is recognised based on the period in which such services have been rendered;
- (viii) Rental income receivable from operating lease is recognised in consolidated income statement on a straight-line basis over the period covered by the lease term;
- (ix) Finance income on receivables under service concession arrangements is recognised using the effective interest method;
- (x) Handling income is recognised when services are rendered;
- (xi) Interest income is recognised on a time-proportion basis using the effective interest method; and
- (xii) Dividends received from financial investments and other financial assets are recognised when the right to receive payment is established.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Employee benefits

The Group operates various post-employment schemes, including both retirement benefits schemes and short-term employee benefits.

(i) *Retirement benefits schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central retirement benefit scheme operated by the local municipal or provincial government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central retirement benefit scheme. The Group has no further payment obligations once the contributions have been paid.

(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.

2.27 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) as 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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the date of grant, excluding the impact of any non-market vesting conditions. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) when the options are exercised.

On lapse of share options according to the plan, corresponding amount recognised in employees' share-based compensation reserve is transferred to retained earnings.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.30 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's equity holders or directors, where appropriate.

2.31 Contract assets and contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in note 2.1 to the consolidated financial statements above, the Group has adopted HKFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparative information for the 2019 reporting period, as permitted under the specific transition provisions under HKFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the consolidated statement of financial position on 1 April 2019. The new accounting policies are disclosed in note 2.20 to the consolidated financial statements.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.95%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- the use of recognition exemption to leases with a remaining lease term of 12 months or less at 1 April 2019;
- the use of recognition exemption to leases for which the underlying asset is of low value;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining lease term at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Interpretation 4 Determining whether an Arrangement contains a Lease.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(ii) Measurement of lease liabilities

The Group had operating lease commitments of HK\$374,674,000 as disclosed as at 31 March 2019 and on adoption of HKFRS 16, the Group recognised lease liabilities of HK\$230,248,000 as at 1 April 2019. The key differences between the disclosed operating lease commitments and the recognised lease liabilities have mainly arisen from the discounting impact on operating lease commitments in using the lessee's incremental borrowing rate as of 1 April 2019, additional lease liabilities recognised under the scope of HKFRS 16 and exclusion of short-term and low-value leases recognised on a straight-line basis as expense.

(iii) Measurement of right-of-use assets

All of the right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the consolidated statement of financial position on adoption of HKFRS 16 on 1 April 2019

The change in accounting policy affected the right-of-use assets and lease liabilities, and both increased by HK\$230,248,000 on 1 April 2019. In addition, prepaid land lease payments of HK\$901,423,000 were reclassified to right-of-use assets on 1 April 2019. There was no material impact on retained earnings on 1 April 2019.

The following is a reconciliation of the opening effect on adoption of HKFRS 16 as at 1 April 2019:

Consolidated statement of financial position (extract)	Right-of-use assets HK\$'000	Prepaid land lease payments HK\$'000	Lease liabilities – current portion HK\$'000	Lease liabilities – non-current portion HK\$'000
At 31 March 2019, as originally reported	–	901,423	–	–
Reclassification to right-of-use assets on adoption of HKFRS 16	901,423	(901,423)	–	–
Adjustment on adoption of HKFRS 16	230,248	–	40,361	189,887
At 1 April 2019, as restated	1,131,671	–	40,361	189,887

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(iv) Adjustments recognised in the consolidated statement of financial position on adoption of HKFRS 16 on 1 April 2019 (Continued)

The recognised right-of-use assets relate to the following types of assets:

	31 March 2020 HK\$'000	1 April 2019 HK\$'000
Leasehold land and land use right	1,098,313	901,423
Buildings	199,517	230,248
Total right-of-use assets	<u>1,297,830</u>	<u>1,131,671</u>

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Credit risk

The Group's credit risk is primarily attributable to financial instruments, contractual cash flows of debt instruments carried at fair value through profit or loss, receivables under service concession arrangements, trade and bill receivables, contract assets, deposits and other receivables, due from non-controlling equity holders of subsidiaries, due from associates and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored and controlled on an ongoing basis. It considers available reasonable and supportive forward-looking information.

The Group's cash and cash equivalents and pledged deposits are placed in reputable financial institutions with sound credit ratings assigned by international credit rating agencies. Management believes there is no significant credit risk of loss on such assets.

For receivables under service concession arrangements, the customers are primarily local governments or PRC state-owned entities and management considers the credit risk is not high.

The credit risk of the Group's other financial assets, which mainly comprise deposits and other receivables, due from non-controlling equity holders of subsidiaries and due from associates, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Management considers that their credit risks have not increased significantly since initial recognition as each of the counterparties have no history of default and possess strong capability to meet contractual cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

The Group is also exposed to credit risk in relation to debt instruments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

Impairment allowance policies for trade and bills receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables and contract assets from initial recognition. To measure the expected credit losses, trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Management performed a detailed assessment of expected credit losses on the date of adoption of HKFRS 9 and concluded that there was no material impact on the Group's impairment allowance.

Impairment losses on trade and bills receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. During the year, no provision for impairment loss on trade and bills receivables and contract assets was recognised in consolidated income statement in relation to impaired financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

(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 PRC subsidiaries of 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 Renminbi ("RMB"), which are same as their functional currency.

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.

Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk. The Group manages foreign currency risk by closely monitoring the proportion of its non-Renminbi borrowings and assets.

(c) Interest rate risk

Interest rate risk relates to the risk that the fair value or future 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 from bank deposits and borrowings which bore floating interests. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points at the end of the year and all other variables were held constant, the Group's profit after income tax and equity would decrease/increase by approximately HK\$107,851,000 (2019: HK\$103,138,000) respectively.

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (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).

Financial assets at FVPL and financial assets at FVOCI expose the Group to price risk.

The Group's investments in listed equity securities are primarily listed on the stock exchanges of Hong Kong.

Sensitivity analysis

If the price of FVPL had been increased/decreased by 10% at the end of the year and all other variables were held constant, the Group's profit after income tax and equity would increase/decrease by approximately HK\$29,214,000 (2019: HK\$48,934,000) respectively.

If the price of FVOCI had been increased/decreased by 10% at the end of the year and all other variables were held constant, the Group's equity would increase/decrease by approximately HK\$35,829,000 (2019: HK\$34,923,000) respectively.

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

(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 assets.

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and meet its short-term and long-term funding requirements. The Group relies on internally generated funding and borrowings as significant sources of liquidity.

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

	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 2020					
Lease liabilities	–	5,976	28,964	494,415	529,355
Trade and bills payables	1,257,948	616,242	1,232,518	–	3,106,708
Other payables	1,072,743	493,898	436,862	–	2,003,503
Accrued liabilities	239,625	170,899	22,909	–	433,433
Due to associates	27,709	19,581	74,515	–	121,805
Borrowings	124,563	761,304	3,350,907	16,335,549	20,572,323
Due to non-controlling equity holders of subsidiaries	95,960	511	67,171	424,641	588,283
	2,818,548	2,068,411	5,213,846	17,254,605	27,355,410

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

(e) Liquidity risk (Continued)

	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 2019					
Trade and bills payables	1,046,026	490,550	873,522	–	2,410,098
Other payables	832,232	363,314	344,037	–	1,539,583
Accrued liabilities	203,515	157,791	13,679	–	374,985
Due to associates	26,093	20,000	–	–	46,093
Borrowings	120,791	612,673	2,795,807	14,133,264	17,662,535
Due to non-controlling equity holders of subsidiaries	173,424	–	45,624	34,617	253,665
	<u>2,402,081</u>	<u>1,644,328</u>	<u>4,072,669</u>	<u>14,167,881</u>	<u>22,286,959</u>

For term loans which contain a repayment on demand clause that can be exercised at the bank's sole discretion, the analysis above shows the cash outflows based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

Taking into account the Group's financial position, the directors of the Company do not consider it probable that the bank will exercise its discretion to demand repayment earlier than the scheduled payment dates. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled payment dates set out in the loan agreements.

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

(i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bills receivables, contract assets, receivables under service concession arrangements, deposits and other receivables, amounts due from/(to) associates and non-controlling equity holders of subsidiaries, pledged deposits, cash and cash equivalents, trade and bills payables, lease liabilities, contract liabilities, other payables, accrued liabilities and borrowings. The directors consider the carrying amounts of the balances approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

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

(ii) *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).

At 31 March 2020, the financial assets measured at fair value in the consolidated 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
Assets				
Financial assets at fair value through other comprehensive income	8,799	–	349,486	358,285
Financial assets at fair value through profit or loss	–	–	292,135	292,135
	<u>8,799</u>	<u>–</u>	<u>641,621</u>	<u>650,420</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

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

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

Fair value hierarchy (Continued)

At 31 March 2019, the financial assets measured at fair value in the consolidated 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
Assets				
Financial assets at fair value through other comprehensive income	13,701	–	335,524	349,225
Financial assets at fair value through profit or loss	692	–	488,648	489,340
	<u>14,393</u>	<u>–</u>	<u>824,172</u>	<u>838,565</u>

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

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

Information about Level 3 fair value measurement

The fair value of financial assets at FVOCI was valued by APAC Appraisal and Consulting Limited, an independent firm of professional valuer, or by the Group. The Group used market approach to determine its fair value.

Financial assets at FVPL comprise financial products with licensed banks in the PRC. The Group used income method of discounted cash flows to determine its fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

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

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

Information about Level 3 fair value measurement (Continued)

The movements of Level 3 instruments during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Financial assets at fair value through other comprehensive income:		
At beginning of the financial year	335,524	211,364
Residual interest in a subsidiary disposed of	–	65,786
Changes in fair value recognised in other comprehensive income	7,866	60,000
Acquisition of subsidiaries (note 42)	56	4,118
Additions	21,120	–
Exchange realignment	(15,080)	(5,744)
	<u>349,486</u>	<u>335,524</u>
Financial assets at fair value through profit or loss:		
At beginning of the financial year	488,648	396,342
Net (disposal)/purchase of financial assets at fair value through profit or loss	(196,513)	92,306
	<u>292,135</u>	<u>488,648</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

(g) *Categories of financial assets and liabilities*

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

Financial assets

	2020 HK\$'000	2019 HK\$'000
At amortised cost		
– Trade and bills receivables	1,324,787	1,242,864
– Contract assets	966,538	774,263
– Receivables under service concession agreements	1,093,931	1,141,332
– Other receivables	1,831,368	2,400,856
– Due from associates	13,411	227,416
– Due from non-controlling equity holders of subsidiaries	211,072	288,194
	5,441,107	6,074,925
– Cash and cash equivalents and pledged deposits	6,603,900	4,617,839
	12,045,007	10,692,764
At fair value		
– Financial assets at fair value through other comprehensive income	358,285	349,225
– Financial assets at fair value through profit or loss	292,135	489,340
	12,695,427	11,531,329

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

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

Financial liabilities

	2020 HK\$'000	2019 HK\$'000
At amortised cost		
– Lease liabilities	366,345	–
– Contract liabilities	1,182,610	921,267
– Trade and bills payables	3,106,708	2,410,098
– Other payables	2,003,503	1,539,583
– Accrued liabilities	433,433	374,985
– Due to associates	121,805	46,093
– Borrowings	17,389,017	14,931,614
– Due to non-controlling equity holders of subsidiaries	576,621	246,832
	25,180,042	20,470,472

(h) 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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

4.1 Financial risk factors (Continued)

(h) Capital management (Continued)

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

	2020 HK\$'000	2019 HK\$'000
Capital		
Total equity	14,098,503	12,902,470
Overall financing		
Borrowings	17,389,017	14,931,614
Due to associates	121,805	46,093
Due to non-controlling equity holders of subsidiaries	576,621	246,832
	18,087,443	15,224,539
Capital-to-overall financing ratio	0.78 times	0.85 times

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and the right-of-use assets, and amortises the intangible assets (other than goodwill) in accordance with the accounting policies stated in notes 2.6, 2.20 and 2.10 to the consolidated financial statements 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 records impairment of trade receivables based on an assessment made by management on the expected credit losses ("ECL") of trade and other receivables. The evaluations focused on the counterparties' settlement history, current ability to pay, forecasts future economic conditions, and took into account information specific to the counterparties as well as pertaining to the economic environment in which the counterparties operated. Provisions are made where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgement and estimates. The Group would revisit and evaluate those assumptions related with ECL model periodically.

(iii) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.9 to the consolidated financial statements. The recoverable amounts of CGUs or group of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates. Management estimates the expected future cash flows from the CGUs or group of CGUs 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) and interests in associates

The Group assesses whether there are any indicators of impairment for all non-financial assets (other than goodwill) and interests in associates at each reporting date. These 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 CGU and determines a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(v) Fair value measurement

A number of assets and liabilities of the Group 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"):

The classification of an item is based on the lowest level of the input 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);
- financial assets at fair value through profit or loss (note 30); and
- financial assets at fair value through other comprehensive income (note 20).

There is significant estimation in relation to the valuation of the items above. Detailed information in relation to the fair value measurement of the items above is set out in note 4.1 to the consolidated financial statements.

(vi) Construction contracts

As stated in note 2.16 to the consolidated financial statements, revenue and profit recognition on an uncompleted project (including the Group's Build-Operate-Transfer (the "BOT arrangements")) are 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(vii) Income taxes and deferred taxation

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

Deferred income tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(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. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related LAT. The Group recognised LAT based on management's best estimates according to their understanding on the tax rules.

(ix) Service concession arrangements

The Group uses judgement to assess whether an agreement and the relevant assets fall into the scope of HK(IFRIC) - Int 12 in particular whether the Group or the grantors control the residual interest in the infrastructure at the end of service concession period. As explained in note 2.16 to the consolidated financial statements, 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 income generated from these infrastructure 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.

The fair value of the construction and upgrade services under the service concession arrangements is calculated as the estimated total construction cost plus a profit margin. The profit margins are assessed by the Group, based on prevailing market rate applicable to similar construction services rendered. Revenue and costs relating to construction or upgrade services are accounted for in accordance with the accounting policy in note 2.16 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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 Transfer-Operate-Transfer (the "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 infrastructures 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 infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 10 to 55 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 of the property, plant and equipment of the water supply and sewage treatment infrastructures, 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 infrastructures, and retain the beneficial entitlement to any residual interest in the water supply and sewage treatment infrastructures 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 infrastructures to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

As at 31 March 2020, the Group had over eighty service concession arrangements on water supply and sewage treatment businesses in the PRC and a summary of the major terms of these service concession arrangements are set out as follows:

Nature of business	Location	Type of service concession arrangement	Practical processing capacity per day (m ³)	Service concession period
Water supply	PRC	TOT/BOT	3,000 – 700,000	1998 – 2065
Sewage treatment	PRC	TOT/BOT	10,000 – 120,000	2006 – 2047

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

7. REVENUE AND OTHER INCOME

The Group's principal activities are disclosed in notes 1 and 48 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:

	2020 HK\$'000	2019 HK\$'000
Revenue:		
Water supply operation services	2,403,111	2,213,932
Water supply connection income	1,618,953	1,441,064
Water supply construction services	3,081,211	2,630,500
Sewage treatment and drainage operation services	334,231	319,506
Sewage treatment and water environmental renovation construction services	613,719	1,086,107
Sales of properties	200,229	250,991
Sales of goods	33,682	14,282
Hotel and rental income	91,488	102,106
Finance income	45,972	37,770
Handling income	32,323	29,568
Others	239,384	176,385
Total	8,694,303	8,302,211
Other income:		
Interest income	119,337	96,487
Government grants and subsidies [#]	181,617	143,234
Amortisation of deferred government grants (note 37)	9,176	8,158
Gain on disposal of property, plant and equipment, net	7,532	4,874
Dividend income from financial assets (note 20(ii))	13,566	8,833
Miscellaneous income	39,335	38,672
Total	370,563	300,258

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

8. SEGMENT INFORMATION

The executive directors have identified the Group's three product and service lines as reportable segments as further described in note 2.4 to the consolidated financial statements.

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

For the year ended 31 March 2020

	City water supply operation and construction HK\$'000	Environmental protection HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue						
From external customers	7,224,212	1,073,940	237,181	158,970	-	8,694,303
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>7,224,212</u>	<u>1,073,940</u>	<u>237,181</u>	<u>158,970</u>	<u>-</u>	<u>8,694,303</u>
Segment profit	<u>2,956,077</u>	<u>276,277</u>	<u>42,091</u>	<u>8,604</u>	<u>-</u>	<u>3,283,049</u>
Unallocated corporate income						133,903
Unallocated corporate expense						(235,495)
Loss on disposal of subsidiaries, net						(348)
Finance costs						(429,215)
Share of results of associates	67,144	340,306	4,870	295	-	412,615
Profit before income tax						3,164,509
Income tax expense						(657,220)
Profit for the year						<u>2,507,289</u>
Other segment information						
Additions of investment properties	-	-	167,126	-	-	167,126
Additions to other non-current segment assets	3,410,755	62,491	2,309	152,604	-	3,628,159
Amortisation of deferred government grants	6,699	2,477	-	-	-	9,176
Amortisation of other intangible assets	(468,428)	(6,103)	-	(4,614)	-	(479,145)
Depreciation of property, plant and equipment and right-of-use assets	(64,460)	(20,578)	(9,425)	(46,167)	-	(140,630)
Property, plant and equipment written off	(394)	(157)	-	-	-	(551)
Gain/(loss) on disposal of property, plant and equipment	7,440	(121)	98	115	-	7,532
Bad debts written off	(1,427)	-	-	-	-	(1,427)

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2020 (Continued)

	City water supply operation and construction HK\$'000	Environmental protection HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Total HK\$'000
Segment assets	22,445,828	3,199,268	3,636,747	2,491,867	31,773,710
Other financial assets					650,420
Interests in associates	474,475	1,659,401	–	93,936	2,227,812
Other corporate assets					7,251,011
					<u>41,902,953</u>
Segment liabilities	5,517,013	902,721	1,126,945	161,160	7,707,839
Deferred tax liabilities					943,423
Provision for tax					1,432,744
Other corporate liabilities					17,720,444
					<u>27,804,450</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2019

	City water supply operation and construction HK\$'000	Environmental protection HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue						
From external customers	6,376,124	1,522,337	291,043	112,707	-	8,302,211
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>6,376,124</u>	<u>1,522,337</u>	<u>291,043</u>	<u>112,707</u>	<u>-</u>	<u>8,302,211</u>
Segment profit/(loss)	<u>2,618,675</u>	<u>443,948</u>	<u>(78,692)</u>	<u>9,118</u>	<u>-</u>	<u>2,993,049</u>
Unallocated corporate income						105,910
Unallocated corporate expense						(194,597)
Gain on disposal of subsidiaries, net						117,841
Finance costs						(319,185)
Share of results of associates	65,951	(77)	(1,487)	4,654	-	69,041
Profit before income tax						2,772,059
Income tax expense						(641,776)
Profit for the year						<u>2,130,283</u>
Other segment information						
Additions of investment properties	-	-	35,119	-	-	35,119
Additions to other non-current segment assets	2,627,111	123,405	3,339	126,015	-	2,879,870
Amortisation of deferred government grants	6,396	1,762	-	-	-	8,158
Amortisation of other intangible assets	(397,594)	(6,307)	-	-	-	(403,901)
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	(38,434)	(11,606)	(1,599)	(28,975)	-	(80,614)
Property, plant and equipment written off	(845)	(173)	(5)	(56)	-	(1,079)
(Loss)/gain on disposal of property, plant and equipment	(243)	(47)	(60)	5,224	-	4,874

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

8. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2019 (Continued)

	City water supply operation and construction HK\$'000	Environmental protection HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Total HK\$'000
Segment assets	19,240,003	3,968,766	3,299,609	2,462,175	28,970,553
Other financial assets					838,565
Interests in associates	468,785	33,042	62,453	111,755	676,035
Other corporate assets					5,339,483
					<u>35,824,636</u>
Segment liabilities	4,144,851	815,200	483,379	120,253	5,563,683
Deferred tax liabilities					882,723
Provision for tax					1,278,874
Other corporate liabilities					15,196,886
					<u>22,922,166</u>

For the years ended 31 March 2020 and 2019, 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 located in geographical areas other than the PRC are less than 10% of the aggregate amount of all segments.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

9. OPERATING PROFIT

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

	2020 HK\$'000	2019 HK\$'000
Cost of sales	4,935,818	4,838,372
Depreciation of property, plant and equipment	73,155	57,013
Depreciation of right-of-use assets	67,475	–
Amortisation of prepaid land lease payments	–	23,601
Amortisation of other intangible assets	479,145	403,901
Operating leases in respect of		
– leasehold land and buildings	3,581	23,072
– other property, plant and equipment	3,206	28,376
Auditors' remuneration		
– Audit services	8,830	7,430
– Non-audit services	310	50
Staff costs (including directors' emoluments – note 14(a)):		
Salaries and wages	801,213	727,941
Pension scheme contribution	129,682	133,334
	930,895	861,275
Gain on disposal of property, plant and equipment, net	(7,532)	(4,874)
Property, plant and equipment written off	551	1,079
Bad debts written off	1,427	–
Net foreign exchange loss	19,308	5,397

10. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank loans	590,991	430,589
Interest on other loans	168,164	208,263
Interest on lease liabilities	19,058	–
Total borrowing costs	778,213	638,852
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development (note)	(348,998)	(319,667)
	429,215	319,185

Note: The borrowing costs have been capitalised at rates ranging from 2.05% to 7.50% for the year ended 31 March 2020 (2019: 2.28% to 7.50%).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

11. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Note	2020 HK\$'000	2019 HK\$'000
Current income tax:			
– the PRC	(b)	569,223	638,021
Deferred tax (note 38)		87,997	3,755
Total income tax expense		657,220	641,776

(a) The Company was originally incorporated in the Cayman Islands and re-domiciled in Bermuda as an exempted company with limited liability under the Companies Law of the Bermuda and, accordingly, is exempted from payment of the Bermuda income tax.

(b) The provision for PRC current income tax is based on a statutory income tax rate of 25% (2019: 25%) of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

Certain subsidiaries operating in the PRC enjoy a preferential income tax rate of 15% (2019: 15%) of their assessable income.

(c) Dividend distribution out of profit of foreign-invested enterprises earned in the PRC subsequent to 1 January 2008 is subject to withholding income tax at a tax rate of 5% or 10%.

The tax on the Group's profit before tax differs from theoretical amount that would arise using tax rate of the Company as follows:

	2020 HK\$'000	2019 HK\$'000
Profit before income tax	3,164,509	2,772,059
Tax calculated at Hong Kong profits tax rate of 16.5% (2019: 16.5%)	522,144	457,390
Effect of different tax rates of subsidiaries operating in other jurisdictions	320,702	237,860
Tax effect of non-taxable items	(143,040)	(28,079)
Tax effect of non-deductible items	110,052	81,598
Tax concession	(156,537)	(79,568)
LAT	–	(44,014)
Tax effect of LAT	–	11,003
Others	3,899	5,586
Income tax expense	657,220	641,776

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

12. 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\$1,639,495,000 (2019: HK\$1,369,235,000) and the weighted average of 1,605,481,000 (2019: 1,608,901,000) ordinary shares in issue during the year.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the year ended 31 March 2020 and 2019.

13. DIVIDENDS

(a) Dividends attributable to the year

	2020 HK\$'000	2019 HK\$'000
Interim dividend of HK\$0.14 (2019: HK\$0.12) per ordinary share	224,564	193,068
Proposed final dividend of HK\$0.16 (2019: HK\$0.16) per ordinary share	256,645	257,424
	481,209	450,492

The final dividends proposed after the reporting date for the year ended 31 March 2020 and 2019 were not recognised as a liability at the reporting date. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting.

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

	2020 HK\$'000	2019 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.16 (2019: HK\$0.15) per ordinary share	257,424	241,335
Adjustment to the final dividend (note)	(779)	–
	256,645	241,335

Note: The adjustment was made due to shares repurchased prior to the record date of the final dividends and, therefore, the related shares ranked for this dividend payment.

(c) Dividends recognised as distributions during the year ended 31 March 2020 amounted to HK\$481,209,000 (2019: HK\$434,403,000) or HK\$0.30 (2019: HK\$0.27) per ordinary share.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

14. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 March 2020:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$'000	Total HK\$'000
Executive directors							
Mr. Duan Chuan Liang	-	10,000	12,000	-	18	18	22,036
Ms. Ding Bin	-	480	1,000	-	18	600	2,098
Ms. Liu Yu Jie	-	2,400	2,000	-	18	-	4,418
Mr. Li Zhong	-	1,289	1,400	-	18	1,185	3,892
Mr. Duan Jerry Linnan (appointed with effect from 15 October 2019)	-	110	-	-	8	440	558
Non-executive directors							
Mr. Zhao Hai Hu	-	120	-	-	-	543	663
Mr. Zhou Wen Zhi	-	120	-	-	-	-	120
Mr. Makoto Inoue	-	60	-	-	-	-	60
Ms. Wang Xiaoqin	-	1,180	1,000	-	18	778	2,976
Independent non-executive directors							
Mr. Chau Kam Wing	348	-	-	-	-	-	348
Mr. Siu Chi Ming	300	-	-	-	-	-	300
Ms. Ho Ping	159	-	-	-	-	-	159
Ms. Zhou Nan (appointed with effect from 22 November 2019)	108	-	-	-	-	-	108
Mr. Chan Wai Cheung Admiral (appointed with effect from 15 January 2020)	64	-	-	-	-	-	64
Mr. Ong King Keung (resigned with effect from 22 November 2019)	193	-	-	-	-	-	193
Total	1,172	15,759	17,400	-	98	3,564	37,993

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

14. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 March 2019:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$'000	Total HK\$'000
Executive directors							
Mr. Duan Chuan Liang	-	10,000	12,000	-	18	17	22,035
Ms. Ding Bin	-	480	1,000	-	18	624	2,122
Ms. Liu Yu Jie	-	2,400	2,000	-	18	-	4,418
Mr. Li Zhong	-	1,289	1,400	-	18	1,532	4,239
Non-executive directors							
Mr. Zhao Hai Hu	-	120	-	-	-	558	678
Mr. Zhou Wen Zhi	-	120	-	-	-	-	120
Mr. Makoto Inoue	-	60	-	-	-	-	60
Ms. Wang Xiaoqin	-	960	1,000	-	18	897	2,875
Independent non-executive directors							
Mr. Chau Kam Wing	348	-	-	-	-	-	348
Mr. Ong King Keung	300	-	-	-	-	-	300
Mr. Siu Chi Ming	300	-	-	-	-	-	300
Ms. Ho Ping	120	-	-	-	-	-	120
Total	1,068	15,429	17,400	-	90	3,628	37,615

Notes to the Consolidated Financial Statements

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14. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (Continued)

(b) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2019: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2019: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2019: Nil).

(e) Directors' material interests in transactions, arrangements and contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Nil).

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For the year ended 31 March 2020

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The five highest paid individuals in the Group during the year included four directors (2019: four directors), details of whose emoluments have been disclosed in note 14(a) to the consolidated financial statements above. The emoluments paid to the remaining individual during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries, allowances and other benefits	2,823	3,053
Retirement scheme contribution	92	105
	<u>2,915</u>	<u>3,158</u>

The emoluments fell within the following bands:

	2020	2019
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	–	1
	<u>1</u>	<u>1</u>

During the years ended 31 March 2020 and 2019, 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. No directors waived emoluments in respect of the years ended 31 March 2020 and 2019.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Vessels HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 April 2018							
Cost	676,957	47,127	154,171	240,685	30,084	905,852	2,054,876
Accumulated depreciation	(57,363)	(28,809)	(84,413)	(166,389)	(22,873)	-	(359,847)
Net carrying amount	619,594	18,318	69,758	74,296	7,211	905,852	1,695,029
Year ended 31 March 2019							
Opening net carrying amount	619,594	18,318	69,758	74,296	7,211	905,852	1,695,029
Additions	7,394	-	35,523	19,217	-	162,481	224,615
Acquisition of subsidiaries	87,795	-	179,813	8,699	-	120,508	396,815
Disposals	(35,433)	-	(2,756)	(1,865)	(934)	-	(40,988)
Disposal of subsidiaries	(23,605)	-	(7,555)	(1,964)	(6,023)	(98,505)	(137,652)
Written off	-	-	(73)	(1,006)	-	-	(1,079)
Transfers	36,775	-	12,499	-	-	(49,274)	-
Transfer from properties under development (note 25)	2,995	-	-	-	-	-	2,995
Depreciation	(20,848)	(252)	(13,184)	(22,729)	-	-	(57,013)
Exchange realignment	(24,864)	(646)	(2,460)	(2,627)	(254)	(31,971)	(62,822)
Closing net carrying amount	649,803	17,420	271,565	72,021	-	1,009,091	2,019,900
At 31 March 2019							
Cost	722,188	45,464	374,258	245,035	-	1,009,091	2,396,036
Accumulated depreciation	(72,385)	(28,044)	(102,693)	(173,014)	-	-	(376,136)
Net carrying amount	649,803	17,420	271,565	72,021	-	1,009,091	2,019,900
Year ended 31 March 2020							
Opening net carrying amount	649,803	17,420	271,565	72,021	-	1,009,091	2,019,900
Additions	1,352	-	10,561	33,430	-	213,346	258,689
Acquisition of subsidiaries (note 42)	6,428	-	109,177	980	-	35	116,620
Disposals	(10)	-	-	(587)	-	-	(597)
Disposal of a subsidiary	-	-	-	-	-	(393)	(393)
Written off	(23)	-	-	(528)	-	-	(551)
Transfers	117,052	-	10,279	-	-	(127,331)	-
Depreciation	(23,864)	(79)	(26,297)	(22,915)	-	-	(73,155)
Capital injection	-	-	-	2,520	-	-	2,520
Exchange realignment	(34,215)	(897)	(14,732)	(3,802)	-	(45,187)	(98,833)
Closing net carrying amount	716,523	16,444	360,553	81,119	-	1,049,561	2,224,200
At 31 March 2020							
Cost	809,456	43,306	483,865	263,212	-	1,049,561	2,649,400
Accumulated depreciation	(92,933)	(26,862)	(123,312)	(182,093)	-	-	(425,200)
Net carrying amount	716,523	16,444	360,553	81,119	-	1,049,561	2,224,200

As at 31 March 2020, the property, plant and equipment with a net carrying amount of HK\$92,164,000 (2019: HK\$798,255,000) were pledged to secure banking facilities granted to the Group (note 35(i)(d)).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

17(a). PREPAID LAND LEASE PAYMENTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net carrying amount are analysed as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 April		
Cost	1,012,681	930,701
Accumulated amortisation	(111,258)	(92,342)
Net carrying amount	901,423	838,359
For the year ended		
Opening net carrying amount	901,423	838,359
Reclassification to right-of-use assets on adoption of HKFRS 16 (note 3)	(901,423)	–
Additions	–	35,706
Acquisition of subsidiaries	–	95,295
Disposals	–	(6,556)
Disposals of subsidiaries	–	(10,407)
Amortisation	–	(23,601)
Exchange realignment	–	(27,373)
Closing net carrying amount	–	901,423
At 31 March		
Cost	–	1,012,681
Accumulated amortisation	–	(111,258)
Net carrying amount	–	901,423

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For the year ended 31 March 2020

17(b). RIGHT-OF-USE ASSETS

	31 March 2020 HK\$'000	1 April 2019 HK\$'000
Leasehold land and land use right	1,098,313	901,423
Buildings	199,517	230,248
	1,297,830	1,131,671

As at 31 March 2020, it was included in the leasehold land and land use right with a net carrying amount of HK\$99,502,000 (2019: prepaid land lease payments of HK\$48,988,000) 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 land. As confirmed by the Group's legal advisors in previous year and based on the Group's assessment for the year ended 31 March 2020, there is no legal impediment for the Group to obtain these land use rights certificates.

As at 31 March 2020, the leasehold land and land use right with a net carrying amount of HK\$177,438,000 (2019: prepaid land lease payments of HK\$336,809,000) were pledged to secure banking facilities granted to the Group (note 35(i)(e)).

The Group leases various leasehold land, properties and plant and machinery. Rental contracts are typically made for fixed periods ranging from one year to twenty years in average.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Additions to the right-of-use assets during the year ended 31 March 2020 were HK\$256,656,000.

During the year ended 31 March 2020, total cash outflow for leases of HK\$35,097,000 was included in net cash generated from financing activities.

The expense relating to short-term leases, depreciation charge for leasehold land and land use right and buildings amounted to HK\$6,787,000, HK\$33,157,000 and HK\$34,318,000 respectively have been included in cost of sales, selling and distribution costs and administrative expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

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18. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
At fair value		
Opening net carrying amount	912,335	909,310
Additions	167,126	35,119
Disposal	(7,416)	–
Exchange realignment	(41,003)	(32,094)
Closing net carrying amount	1,031,042	912,335

As at 31 March 2020, the investment properties with a carrying amount of HK\$301,011,000 (2019: HK\$315,176,000) were pledged to secure banking facilities granted to the Group (note 35(i)(f)).

Investment properties were revalued on 31 March 2020 by RHL Appraisal Limited, independent firm of professional valuer or by the Group.

Residential properties and leasehold land located in the PRC are held within a business model that the Group sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the value. Valuations were based on market evidence of recent transaction prices for similar properties and adjusted for the differences.

Industrial properties under development located in the PRC are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties through use.

The fair value of investment properties is a level 3 recurring fair value measurement.

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.

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18. INVESTMENT PROPERTIES (Continued)

The following table shows the significant unobservable inputs used in the valuation model.

Properties	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Industrial properties under development located in the PRC	Level 3	Direct comparison approach	Market sale rate per square meter, taking into account of individual factors such as location and size, etc.	HK\$9,392 to HK\$9,912 (2019: HK\$8,862 to HK\$11,646)	The higher the price, the higher the fair value
Residential properties located in the PRC	Level 3	Direct comparison approach	Market sale rate per square meter, taking into account of individual factors such as location and size, etc.	HK\$72,452 to HK\$74,645 (2019: HK\$74,749 to HK\$79,172)	The higher the price, the higher the fair value
Leasehold land located in the PRC	Level 3	Direct comparison approach	Market sale rate per square meter, taking into account of individual factors such as location and size, etc.	HK\$433 to HK\$758 (2019: HK\$478 to HK\$782)	The higher the price, the higher the fair value

There were no changes to the valuation techniques adopted during the year as compared to prior year.

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

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19. INTERESTS IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Share of net assets	2,058,312	515,655
Goodwill	169,500	160,380
	<u>2,227,812</u>	<u>676,035</u>

All the balances for amounts due from/(to) associates were unsecured, interest-free and repayable on demand as at 31 March 2020 and 2019 except for as follows:

As at 31 March 2020

- (a) The amounts due to associates with carrying amount of HK\$21,427,000 which bore interest rate ranged from 5.0% to 8.0% per annum and repayable within one year.

As at 31 March 2019

- (a) The amounts due to associates with carrying amount of HK\$2,480,000 which bore interest rate ranged from 6.0% to 8.0% per annum and repayable on demand.
- (b) The amount due to an associate with carrying amount of HK\$20,000,000 which bore interest rate at 5.0% per annum and was repayable within one year.

During the year ended 31 March 2020, the Group acquired 600,000,000 ordinary shares of Kangda International Environmental Company Limited ("Kangda International") at the price of HK\$2.00 per share, representing its 29.52% equity interest, at a total consideration of HK\$1,200,000,000. The shares of Kangda International are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (stock code: 6136) and it was accounted for as an associate of the Group since 4 April 2019. In the opinion of the directors, Kangda International is considered the principal associate of the Group.

Kangda International has a financial year ending 31 December. There were no material transactions carried out by Kangda International from 1 January 2020 to 31 March 2020.

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19. INTERESTS IN ASSOCIATES (Continued)

Summary of financial information for Kangda International and its subsidiaries

	2020 HK\$'000
As at 31 December 2019	
<i>Summary of consolidated statement of financial position:</i>	
Current assets	5,608,333
Non-current assets	13,154,016
Current liabilities	(7,058,568)
Non-current liabilities	(6,541,813)
	<u>5,161,968</u>
Less: Non-controlling interests of Kangda International's subsidiaries	(223,652)
Closing net assets	<u><u>4,938,316</u></u>
Group's share in %	29.52%
<i>Reconciliation to carrying amount:</i>	
Purchase consideration – settled by cash	1,200,000
Gain on bargain purchase	214,776
	<u>1,414,776</u>
Fair value of net identified assets acquired	1,414,776
Share of profit for the period	108,415
Share of other comprehensive loss for the period	(1,814)
Other reconciliation items	(63,586)
	<u>1,457,791</u>
Carrying values	<u><u>1,457,791</u></u>
Period ended 31 December 2019	
<i>Summary of consolidated statement of profit or loss and other comprehensive income:</i>	
Revenue	<u><u>2,478,643</u></u>
Net profit for the period	367,260
Other comprehensive loss for the period	(6,145)
	<u>361,115</u>
Total comprehensive income for the period	<u><u>361,115</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

19. INTERESTS IN ASSOCIATES (Continued)

The aggregated amounts of the following financial information of the Group's associates, which are individually immaterial, attributable to the Group using equity method is summarised as follows:

	2020 HK\$'000	2019 HK\$'000
Carrying values	770,021	676,035
Profit before income tax	89,424	69,041
Other comprehensive income	–	–
Total comprehensive income	89,424	69,041

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

As at 31 March 2020 and 2019, the Group has other commitments relating to its investments in the associate as set out in note 44(c) to the consolidated financial statements.

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For the year ended 31 March 2020

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Equity investments at fair value through other comprehensive income

	Original currency	2020 HK\$'000	2019 HK\$'000
Listed equity securities in Hong Kong	HK\$	8,799	13,701
Unlisted equity securities outside Hong Kong	RMB	349,486	335,524
		358,285	349,225

(ii) Amount recognised in consolidated income statement and other comprehensive income

During the year, the following gain was recognised in consolidated income statement and other comprehensive income.

	2020 HK\$'000	2019 HK\$'000
Change in fair value of financial assets at fair value through other comprehensive income	2,964	108,617
Dividend income from financial assets (note 7)	13,566	8,833

(iii) Non-current assets pledged as security

As at 31 March 2020, the financial assets at fair value through other comprehensive income with carrying amount of HK\$232,584,000 (2019: HK\$235,294,000) were pledged as securities for banking facilities granted to the Group (note 35(i)(j)).

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21. GOODWILL

The amount of goodwill arising from business combinations is as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 April		
Gross carrying amount	1,220,394	817,161
Accumulated impairment	–	–
Net carrying amount	1,220,394	817,161
Opening net carrying amount	1,220,394	817,161
Acquisition of subsidiaries (note 42)	131,619	419,143
Exchange realignment	(32,009)	(15,910)
Closing net carrying amount	1,320,004	1,220,394
At 31 March		
Gross carrying amount	1,320,004	1,220,394
Accumulated impairment	–	–
Net carrying amount	1,320,004	1,220,394

Goodwill acquired through business combinations have been allocated to the following CGUs/group of CGUs for impairment testing:

- water supply CGUs within city water supply operation and construction segment;
- environmental protection CGUs within environmental protection segment; and
- other CGUs, which include gas sales and other operations.

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21. GOODWILL (Continued)

The carrying amounts of goodwill allocated to each of the CGUs/group of CGUs are as follows:

	Water supply CGUs HK\$'000	Environmental protection CGUs HK\$'000	Other CGUs HK\$'000	Total HK\$'000
Carrying amount at 31 March 2020	891,441	221,937	206,626	1,320,004
Carrying amount at 31 March 2019	806,299	227,285	186,810	1,220,394

The recoverable amounts are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections of the underlying operation covering the remaining years till the end of their respective service concessions periods.

The key assumptions used for the value-in-use calculations include forecast future business growth, city water and gas tariff, sewage charges, operating costs (including raw water, gas and electricity costs) until the end of the respective service concession period. Discount rates of 10% to 13% are adopted on water supply, gas supply and sewage treatment respectively to reflect specific risks relating to the relevant CGUs/group of CGUs. Based on the impairment tests prepared, there is no significant impairment for goodwill as at 31 March 2020.

For sensitivity analysis, had there been a 2% reduction of future business growth rate, a 1% reduction of average city water tariff or sewage charges, a 2% increase in operating costs or a 2% increase in discount rate in the value-in-use calculations each in isolation, no significant impairment loss of goodwill is resulted.

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22. OTHER INTANGIBLE ASSETS

	Water supply concession rights		Sewage treatment concession rights		Other operating rights		Total	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
At beginning of the year								
Cost	17,313,474	14,144,422	206,777	292,071	120,000	-	17,640,251	14,436,493
Accumulated amortisation	(2,346,701)	(1,685,182)	(315)	(69,886)	-	-	(2,347,016)	(1,755,068)
Net carrying amount	14,966,773	12,459,240	206,462	222,185	120,000	-	15,293,235	12,681,425
For the year ended								
Opening net carrying amount	14,966,773	12,459,240	206,462	222,185	120,000	-	15,293,235	12,681,425
Additions	3,097,350	2,573,061	15,464	46,488	-	-	3,112,814	2,619,549
Capital injection	52,079	5,779	-	-	-	-	52,079	5,779
Acquisition of subsidiaries (note 42)	249,046	784,391	-	-	43,034	120,000	292,080	904,391
Disposals	(28,512)	-	-	-	-	-	(28,512)	-
Disposal of a subsidiary	-	(20,229)	-	-	-	-	-	(20,229)
Transfer to receivables under service concession arrangements	-	-	-	(49,821)	-	-	-	(49,821)
Written-off	-	(1,088)	-	-	-	-	-	(1,088)
Amortisation	(468,428)	(397,594)	(6,103)	(6,307)	(4,614)	-	(479,145)	(403,901)
Exchange realignment	(669,732)	(436,787)	(9,279)	(6,083)	(5,394)	-	(684,405)	(442,870)
Closing net carrying amount	17,198,576	14,966,773	206,544	206,462	153,026	120,000	17,558,146	15,293,235
At 31 March								
Cost	19,903,452	17,313,474	212,962	206,777	157,640	120,000	20,274,054	17,640,251
Accumulated amortisation	(2,704,876)	(2,346,701)	(6,418)	(315)	(4,614)	-	(2,715,908)	(2,347,016)
Net carrying amount	17,198,576	14,966,773	206,544	206,462	153,026	120,000	17,558,146	15,293,235

As at 31 March 2020, the other intangible assets with a net carrying amount of HK\$1,011,983,000 (2019: HK\$933,356,000) were pledged as security for banking facilities granted to the Group (note 35(i)(g)).

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current			
Deposits for acquisition of equity securities		–	26,267
Prepayments and other receivables	(i)	894,863	1,473,838
		894,863	1,500,105
Current			
Prepayments		257,957	201,965
Other receivables	(ii)	1,339,393	1,347,702
		1,597,350	1,549,667

Notes:

- (i) As at 31 March 2020, the balances mainly represented the prepayments for city water supply and water environmental renovation construction.

As at 31 March 2019, the balances mainly included an earnest money which bore interest rate at 8.0% per annum for the proposed acquisition of 29.52% equity interest in Kangda International amounting to HK\$588,235,000. The remaining balances mainly represented the prepayments for city water supply and water environmental renovation construction.

- (ii) The balances mainly represented receivables from customers for sewage treatment fees and various municipal service charges on behalf of certain government authorities in the PRC; receivables from certain government authorities for funds advancements; and various other receivables. The balances were unsecured, interest-free and repayable on demand as at 31 March 2020 and 2019, except for the receivables of aggregate carrying amount of approximately HK\$358,653,000 (2019: HK\$317,165,000) which bore interest rates ranged from 5.0% to 8.0% (2019: 5.0% to 8.0%) per annum and were repayable within one year (2019: repayable within one year).

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

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

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24. CONTRACT ASSETS

The Group has recognised the following assets related to contracts with customers:

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current			
Relating to service concession arrangements	(i)	428,096	249,054
Relating to water environmental renovation construction businesses	(ii)	242,449	291,725
		670,545	540,779
Current			
Relating to city water supply and water environmental renovation construction businesses	(ii)	295,993	233,484

Notes:

- (i) Contract assets relating to service concession arrangements for sewage treatment construction services is not due from the customer until the construction of new sewage treatment infrastructure or upgrade services are completed. As a result, a contract asset is recognised over the period in which the construction of new sewage treatment infrastructure or upgrade services are performed to represent the entity's right to consideration for the services transferred to date. The carrying amount of approximately HK\$428,096,000 (2019: HK\$249,054,000) will be reclassified as receivables under service concession arrangements after the construction of new sewage treatment infrastructure or upgrade services has completed.
- (ii) Contract assets relating to city water supply and water environmental renovation construction businesses recognised over the period represent the entity's right to consideration for the services transferred to date. The carrying amount of approximately HK\$538,442,000 (2019: HK\$525,209,000) will be reclassified as trade receivables at the point that the amount is invoiced to the customer.
- (iii) The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all contract assets from initial recognition. During the year, no provision for impairment loss on contract assets was recognised in consolidated income statement in relation to impaired financial assets. Information about the impairment of contract assets and the Group's exposure to credit risk can be found in note 4.1(a) to the consolidated financial statements.

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25. PROPERTIES UNDER DEVELOPMENT

	2020 HK\$'000	2019 HK\$'000
At cost		
Opening net carrying amount	1,273,890	1,370,202
Additions	417,211	491,134
Disposals	–	(226,557)
Transfer to property, plant and equipment (note 16)	–	(2,995)
Transfer to properties held for sale (note 26)	(128,548)	(309,534)
Exchange realignment	(56,833)	(48,360)
	<u>1,505,720</u>	<u>1,273,890</u>

26. PROPERTIES HELD FOR SALE

	2020 HK\$'000	2019 HK\$'000
At cost		
Opening net carrying amount	816,189	597,341
Additions	150	14,666
Transfer from properties under development (note 25)	128,548	309,534
Sales for the year	(156,673)	(85,852)
Exchange realignment	(36,681)	(19,500)
	<u>751,533</u>	<u>816,189</u>

As at 31 March 2020, the properties held for sale with carrying amount of approximately HK\$75,920,000 (2019: HK\$Nil) were pledged to secure banking facilities granted to the Group (note 35(i)(h)).

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

27. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials and supplies	352,891	295,363
Work-in-progress	260,738	220,025
Finished goods	16,765	15,602
	<u>630,394</u>	<u>530,990</u>

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28. TRADE AND BILLS RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables (net of allowance for doubtful debts)	1,298,440	1,233,828
Bills receivables	26,347	9,036
	1,324,787	1,242,864

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 transactions. The ageing analysis of trade and bills receivables based on invoice dates is as follows:

	2020 HK\$'000	2019 HK\$'000
0 to 90 days	773,703	612,672
91 to 180 days	120,514	167,899
Over 180 days	430,570	462,293
	1,324,787	1,242,864

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables from initial recognition. During the year, no provision for impairment loss on trade and bills receivables was recognised in consolidated income statement in relation to impaired financial assets. Information about the impairment of trade and bills receivables and the Group's exposure to credit risk can be found in note 4.1(a) to the consolidated financial statements.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2020 HK\$'000	2019 HK\$'000
Opening carrying amount	6,379	6,612
Exchange realignment	(287)	(233)
Closing carrying amount	6,092	6,379

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28. TRADE AND BILLS RECEIVABLES (Continued)

Trade receivables that were past due but not impaired relate to customers that have good repayment track records 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. The evaluations focused on the counterparties settlement history, current ability to pay, forecast future economic conditions and took into account information specific to the counterparties as well as pertaining to the economic environment in which the counterparties operated. Trade receivables that were neither past due nor impaired related to a large number of independent customers. 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. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group recognised financial assets – receivables under service concession arrangements in respect of its sewage treatment business arising from certain BOT and TOT arrangements. Details of the service concession arrangements of the Group are set out in note 5 to the consolidated financial statements.

Receivables under service concession arrangements represented revenue from construction services under BOT and TOT arrangements and bear interest at rate of 3.96% to 6.62% (2019: 3.96% to 6.62%) 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 and TOT arrangements.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2020 HK\$'000	2019 HK\$'000
Listed equity securities, at market value:			
– PRC	(i)	–	692
Unlisted debt securities	(ii)	292,135	488,648
		292,135	489,340

Notes:

- (i) 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.
- (ii) The balance comprises financial products with licensed banks in the PRC. The Group used income method of discounted cash flows to determine its fair value.

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31. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 HK\$'000	2019 HK\$'000
Cash at banks/other financial institutions and in hand	4,664,855	2,218,693
Deposits	1,939,045	2,399,146
	6,603,900	4,617,839
Deposit pledged against banking facilities granted to mortgagees	(552)	(513)
Deposit pledged for bank loans (note 35(i)(i))	(649,550)	(178,866)
Deposit pledged for other loans (note 35(i)(i))	(58,102)	(388,180)
Deposit pledged for bills payables (note 33)	(255,032)	(76,965)
	(963,236)	(644,524)
Cash and cash equivalents	5,640,664	3,973,315

Cash at banks/other financial institutions earn interest at floating rates based on daily bank deposit rates.

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

As at 31 March 2020, the Group had cash and cash equivalents and pledged deposits denominated in RMB amounting to approximately HK\$4,389,279,000 (2019: HK\$2,354,030,000), 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.

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32. CONTRACT LIABILITIES

The Group has recognised the following liabilities related to contracts with customers:

	2020 HK\$'000	2019 HK\$'000
Non-current		
Receipt in advance from customers for city water supply construction businesses	276,453	273,133
Current		
Receipt in advance from customers for city water supply operation businesses	199,435	160,537
Receipt in advance from customers for city water supply and water environmental renovation construction businesses	339,295	343,026
Receipt in advance from customers for property development and investment businesses	367,427	144,571
	906,157	648,134

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised for the year ended 31 March 2020 and 2019 relates to carried-forward contract liabilities.

	2020 HK\$'000	2019 HK\$'000
Revenue recognised that was included in the contract liabilities balance at 1 April		
City water supply operation businesses	153,155	135,026
City water supply and water environmental renovation construction businesses	222,346	164,411
Property development and investment businesses	36,532	35,260
	412,033	334,697

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32. CONTRACT LIABILITIES (Continued)

(ii) Unsatisfied contracts related to city water supply construction

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at 31 March 2020 and 2019.

	2020 HK\$'000	2019 HK\$'000
City water supply construction businesses	276,453	273,133

All other contracts related to water supply construction are for periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

33. TRADE AND BILLS PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	2,728,267	2,189,887
Bills payables	378,441	220,211
	3,106,708	2,410,098

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 trade and bills payables as at the reporting date is as follows:

	2020 HK\$'000	2019 HK\$'000
0 to 90 days	2,148,969	1,678,905
91 to 180 days	459,900	308,239
Over 180 days	497,839	422,954
	3,106,708	2,410,098

As at 31 March 2020, the bills payables of HK\$378,441,000 (2019: HK\$220,211,000) were secured by the pledged bank deposits of HK\$255,032,000 (2019: HK\$76,965,000) (note 31).

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34. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Current		
Accrued liabilities	433,433	374,985
Deposits received	46,028	64,514
Other payables (note)	2,003,503	1,539,583
	2,482,964	1,979,082

Note: Other payables mainly included water supply and sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$527,028,000 (2019: HK\$413,554,000) and payables for other PRC tax surcharges and construction costs.

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35. BORROWINGS

	Notes	Original currency	2020 HK\$'000	2019 HK\$'000
Current				
Bank loans – unsecured	(ii)	RMB	893,946	713,174
Bank loans – secured	(i), (ii)	RMB	1,405,832	914,359
Bank loans due for repayment which contain a repayment on demand clause – unsecured	(ii), (v)	USD	499,000	–
Bank loans – unsecured	(ii)	USD	1,107,917	1,104,747
Other loans – unsecured	(iii)	RMB	27,472	28,412
Other loans – secured	(i), (iii)	RMB	30,236	476,471
Other loans – secured	(i), (iii)	USD	36,706	62,400
Government loans – unsecured	(iv)	RMB	89,881	137,920
			4,090,990	3,437,483
Non-current				
Bank loans – unsecured	(ii)	RMB	1,171,148	1,322,440
Bank loans – secured	(i), (ii)	RMB	3,028,301	2,221,490
Bank loans – unsecured	(ii)	USD	5,577,418	5,112,621
Bank loans – unsecured	(ii)	HK\$	496,206	–
Other loans – unsecured	(iii)	RMB	309,511	351,885
Other loans – unsecured	(iii)	USD	2,301,428	2,288,540
Other loans – secured	(i), (iii)	RMB	271,848	–
Other loans – secured	(i), (iii)	USD	–	59,365
Government loans – unsecured	(iv)	RMB	142,167	137,790
			13,298,027	11,494,131
			17,389,017	14,931,614

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35. BORROWINGS (Continued)

	2020 HK\$'000	2019 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	3,906,695	2,732,280
In the second year	1,184,546	1,212,008
In the third to fifth years, inclusive	7,070,269	5,902,938
Beyond five years	2,018,258	1,541,605
	14,179,768	11,388,831
Other loans repayable:		
Within one year or on demand	94,414	567,283
In the second year	2,575,180	321,258
In the third to fifth years, inclusive	182,584	2,378,532
Beyond five years	125,023	–
	2,977,201	3,267,073
Government loans repayable:		
Within one year or on demand	89,881	137,920
In the second year	21,169	21,325
In the third to fifth years, inclusive	63,500	49,116
Beyond five years	57,498	67,349
	232,048	275,710

Notes:

- (i) The borrowings at 31 March 2020 and 2019 were secured or guaranteed by:
- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
 - (b) charges over shares of certain subsidiaries of the Group;
 - (c) guarantees by certain non-controlling equity holders of subsidiaries of the Group and government authorities;

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35. BORROWINGS (Continued)

Notes: (Continued)

- (i) The borrowings at 31 March 2020 and 2019 were secured or guaranteed by: (Continued)
 - (d) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2020 was HK\$92,164,000 (2019: HK\$798,255,000) (note 16);
 - (e) charges over right-of-use assets (2019: prepaid land lease payments) in which their aggregate carrying amount as at 31 March 2020 was HK\$177,438,000 (2019: HK\$336,809,000) (note 17(b));
 - (f) charges over investment properties in which their aggregate carrying amount as at 31 March 2020 was HK\$301,011,000 (2019: HK\$315,176,000) (note 18);
 - (g) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2020 was HK\$1,011,983,000 (2019: HK\$933,356,000) (note 22);
 - (h) charges over the properties held for sale in which their aggregate carrying amount as at 31 March 2020 was HK\$75,920,000 (2019: HK\$Nil) (note 26);
 - (i) charges over the bank deposits in amount of HK\$707,652,000 as at 31 March 2020 (2019: HK\$567,046,000) (note 31); and
 - (j) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 31 March 2020 was HK\$232,584,000 (2019: HK\$235,294,000) (note 20(iii)).
- (ii) The effective interest rates of the bank loans ranged from 2.78% to 9.00% (2019: 2.78% to 9.60%) per annum at 31 March 2020.
- (iii) The effective interest rates of the other loans ranged from 4.78% to 7.50% (2019: 3.88% to 7.00%) per annum at 31 March 2020.
- (iv) The effective interest rates of the government loans ranged from 1.20% to 5.00% (2019: 1.20% to 5.00%) per annum at 31 March 2020.
- (v) Due to the unconditional right to demand repayment stated in the relevant loan agreement, the current liabilities of the Group as at 31 March 2020 included bank loan of USD64,000,000 (approximately HK\$499,000,000) that are not scheduled to repay within one year. It is classified as current liability as the related loan agreement contains a clause that provides the lender with an unconditional right to demand repayment at the fifth anniversary to the related loan agreement any time at its own discretion. The right will expire within twelve months from 31 March 2020 and the loan amount will be reclassified in accordance with the scheduled repayment.

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36. DUE FROM/(TO) NON-CONTROLLING EQUITY HOLDERS OF SUBSIDIARIES

All the balances were unsecured, interest-free and repayable on demand except for:

- (a) the amount due to a non-controlling equity holder of a subsidiary with carrying amount of HK\$14,808,000 (2019: HK\$45,624,000) as at 31 March 2020 which bore interest rate at 5.5% (2019: ranged from 5.2% to 5.5%) per annum and was repayable within one year;
- (b) the amount due to a non-controlling equity holder of a subsidiary with carrying amount of HK\$5,882,000 as at 31 March 2019 which bore interest rate at 4.8% per annum and repayable on demand; and
- (c) the amounts due to non-controlling equity holders of subsidiaries with carrying amount of HK\$96,067,000 (2019: HK\$25,882,000) as at 31 March 2020 which bore interest rate ranged from 1.2% to 5.7% (2019: 1.2%) per annum and was repayable over one year.

37. DEFERRED GOVERNMENT GRANTS

	2020 HK\$'000	2019 HK\$'000
Opening carrying amount	225,583	156,336
Additions	2,290	37,294
Acquisition of subsidiaries	–	45,545
Amortisation (note 7)	(9,176)	(8,158)
Disposal of a subsidiary	(6,452)	–
Exchange realignment	(10,032)	(5,434)
Closing carrying amount	202,213	225,583

The deferred government grants mainly related to the Group's acquisition of other intangible assets (note 22).

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38. DEFERRED TAX LIABILITIES

Deferred tax liabilities are calculated on temporary differences under the liability method using applicable taxation rates of the relevant entities.

The movements in deferred tax liabilities during the year, without taking into accounts for the offsetting of balances within the same tax jurisdiction, are 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	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 April 2018	413,425	96,159	311,074	51,850	872,508
Charged/(credited) to profit or loss (note 11)	79,566	–	(75,811)	–	3,755
Acquisition of subsidiaries	–	39,639	–	–	39,639
Disposal of a subsidiary	(3,843)	–	–	–	(3,843)
Exchange realignment	(13,132)	(3,394)	(10,980)	(1,830)	(29,336)
At 31 March 2019	476,016	132,404	224,283	50,020	882,723
Charged to profit or loss (note 11)	87,997	–	–	–	87,997
Acquisition of a subsidiary (note 42)	–	10,758	–	–	10,758
Exchange realignment	(20,654)	(5,951)	(9,202)	(2,248)	(38,055)
At 31 March 2020	543,359	137,211	215,081	47,772	943,423

At 31 March 2020, the Group has unused tax losses of HK\$220,773,000 (2019: HK\$184,824,000) 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. The unused tax losses will expire in 5 years except for those arising from Hong Kong which do not have expiry.

At 31 March 2020, the deferred tax liabilities of HK\$117,076,000 (2019: HK\$89,091,000) for the aggregate amount of temporary differences associated with undistributed earnings of foreign owned PRC subsidiaries have not been recognised, because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

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39. SHARE CAPITAL

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each At 31 March 2019 and 2020	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each At 1 April 2018 and at 31 March 2019	1,608,901	16,089
Repurchased and cancelled (note)	(4,872)	(49)
At 31 March 2020	1,604,029	16,040

Note: During the year ended 31 March 2020, the Company repurchased a total of 4,872,000 ordinary shares of the Company at an aggregate cost of approximately HK\$34,217,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$7.46 and HK\$6.08 per share 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 contributed surplus. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

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40. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 7 September 2012. The purpose of the 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 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 non-executive 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 Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted.

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Company must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Company must not in aggregate exceed 10% of the shares in issue at the date of passing the resolution for adoption of the Scheme. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

The maximum number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An offer of the grant of an option under the 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 2020 and 2019, no share option is granted and exercised under the Scheme.

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41. RESERVES

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 on pages 48 to 49.

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 reductions.

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 interests respectively; and (ii) share of other reserves of associates.

The share options reserve represents the cumulative expenses recognised on the granting of share options to the employees over the vesting period and share of the share options reserves of the 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.

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42. BUSINESS COMBINATIONS

- (a) On 1 April 2019, the Group entered into an agreement with the independent third parties to acquire 51% equity interest in 長沙水杯子直飲水工程設備有限公司 (“Changsha Water Cup”) and its subsidiaries (“Changsha Water Cup Group”) at a consideration of RMB53,080,000 (approximately HK\$59,640,000). Changsha Water Cup Group is principally engaged in direct drinking water business. The Group previously held 40% equity interest of a subsidiary of Changsha Water Cup, which was accounted for as an associate as at 31 March 2019. The acquisition was completed on 1 April 2019.

The acquisition was made as part of the Group’s strategy to facilitate the direct drinking water business in the PRC.

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

	HK\$'000
Purchase consideration – settled by cash	59,640
Fair value of the Group’s interest previously held in a subsidiary of Changsha Water Cup	475
Fair value of net identified assets acquired	<u>(15,755)</u>
Goodwill (note 21)	<u><u>44,360</u></u>

The goodwill of HK\$44,360,000, 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.

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42. BUSINESS COMBINATIONS (Continued)

(a) (Continued)

The fair value of identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	17,941	17,941
Financial assets at fair value through other comprehensive income	56	56
Inventories	8,696	8,696
Trade receivables	2,172	2,172
Prepayments, deposits and other receivables	23,628	23,628
Cash and cash equivalents	366	366
Trade payables	(3,518)	(3,518)
Accrued liabilities, deposits received and other payables	(3,612)	(3,612)
Borrowings	(14,324)	(14,324)
Due to non-controlling equity holders of subsidiaries	(297)	(297)
Provision for tax	(13)	(13)
Non-controlling interests	(15,340)	(15,340)
Net identifiable assets attributed to the Group acquired	15,755	15,755
Cash and cash equivalents in business acquired		366
Cash outflow on acquisition of business		(25,730)
Net cash outflow arising on acquisition		(25,364)

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

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

Since its acquisition, Changsha Water Cup Group contributed revenue of HK\$47,923,000 and net profit of HK\$3,053,000 to the Group for the period from 1 April 2019 to 31 March 2020.

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42. BUSINESS COMBINATIONS (Continued)

- (b) On 13 March 2019, the Group entered into an agreement with an independent third party, 夏縣自來水公司 (“Xia County Water Supply”), that the Group and Xia County Water Supply shall establish a new company, 夏縣銀龍水務有限公司 (“Xia County Silver Dragon Water”), to run a water supply business. The Group shall contribute 56.40% registered capital of Xia County Silver Dragon Water by way of cash (RMB19,740,853) and Xia County Water Supply shall contribute the remaining 43.60% interest of Xia County Silver Dragon Water by way of assets and the water supply business in Xia County Silver Dragon Water. The above transaction was completed on 8 May 2019.

The transaction was made as part of the Group’s strategy to facilitate the water supply business in the PRC.

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

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

	Fair value HK\$'000	Carrying amount HK\$'000
Other intangible assets	29,562	29,562
Trade payables	(3,340)	(3,340)
Accrued liabilities, deposits received and other payables	(9,077)	(9,077)
Non-controlling interests	(17,145)	(17,145)
Net identifiable assets attributed to the Group acquired	–	–
Cash and cash equivalents in business acquired and net cash inflow arising on transaction		–

Since its acquisition, Xia County Silver Dragon Water contributed revenue of HK\$4,982,000 and net loss of HK\$1,888,000 to the Group for the period from 8 May 2019 to 31 March 2020.

Had the combination been taken place on 1 April 2019, the revenue and the net profit of the Group for the year ended 31 March 2020 would have been HK\$8,694,505,000 and HK\$2,507,277,000 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 2019, nor are they intended to be a projection of future results.

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42. BUSINESS COMBINATIONS (Continued)

- (c) On 10 October 2019, the Group entered into an agreement with an independent third party to acquire 80% equity interest in 新寧縣中基燃氣有限公司 (“Zhongji Gas”) at a consideration of RMB41,090,000 (approximately HK\$46,168,000). Zhongji Gas is principally engaged in liquefied natural gas (“LNG”) supply business. The acquisition was completed on 10 October 2019.

The acquisition was made as part of the Group’s strategy to facilitate the LNG supply business in the PRC.

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

	HK\$’000
Purchase consideration – settled by cash	46,168
Fair value of net identified assets acquired	<u>(25,546)</u>
Goodwill (note 21)	<u><u>20,622</u></u>

The goodwill of HK\$20,622,000, 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.

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42. BUSINESS COMBINATIONS (Continued)

(c) (Continued)

The fair value of identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	97,871	97,871
Right-of-use assets	2,922	2,922
Other intangible assets	43,034	–
Inventories	1,905	1,905
Trade receivables	53	53
Prepayments, deposits and other receivables	23,468	23,468
Cash and cash equivalents	49	49
Lease liabilities	(1,414)	(1,414)
Contract liabilities	(705)	(705)
Trade payables	(4,540)	(4,540)
Accrued liabilities, deposits received and other payables	(63,454)	(63,454)
Borrowings	(42,584)	(42,584)
Provision for tax	(229)	(229)
Deferred tax liabilities	(10,758)	–
Non-controlling interests	(20,072)	(5,871)
Net identifiable assets attributed to the Group acquired	25,546	7,471
Cash and cash equivalents in business acquired		49
Cash outflow on acquisition of business		(6,971)
Net cash outflow arising on acquisition		(6,922)

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

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

Since its acquisition, Zhongji Gas contributed revenue of HK\$20,595,000 and net profit of HK\$4,849,000 to the Group for the period from 10 October 2019 to 31 March 2020.

Had the combination been taken place on 1 April 2019, the revenue and the net profit of the Group for the year ended 31 March 2020 would have been HK\$8,707,444,000 and HK\$2,510,271,000 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 2019, nor are they intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

42. BUSINESS COMBINATIONS (Continued)

- (d) On 25 November 2019, the Group entered into an agreement with an independent third party, 魯山縣城南水業有限公司 (“Lushan Water Company”), that the Group and Lushan Water Company shall establish a new company, 魯山縣銀龍水務有限公司 (“Lushan Silver Dragon Water”), to run a water supply business. The Group shall contribute 80% registered capital of Lushan Silver Dragon Water by way of cash (RMB96,086,000) and Lushan Water Company shall contribute the remaining 20% interest of Lushan Silver Dragon Water by way of assets and the water supply business in Lushan Silver Dragon Water. The above transaction was completed on 11 December 2019.

The transaction was made as part of the Group’s strategy to facilitate the water supply business in the PRC.

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

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	67	67
Right-of-use assets	667	667
Other intangible assets	67,429	67,429
Inventories	1,776	1,776
Trade receivables	51	51
Due from non-controlling equity holders of subsidiaries	1,297	1,297
Prepayments, deposits and other receivables	135	135
Cash and cash equivalents	5	5
Trade payables	(5,179)	(5,179)
Accrued liabilities, deposits received and other payables	(39,257)	(39,257)
Non-controlling interests	(26,991)	(26,991)
Net identifiable assets attributed to the Group acquired	–	–
Cash and cash equivalents in business acquired and net cash inflow arising on transaction		5

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

Since its acquisition, Lushan Silver Dragon Water contributed revenue of HK\$571,000 and net loss of HK\$1,771,000 to the Group for the period from 11 December 2019 to 31 March 2020.

Had the combination been taken place on 1 April 2019, the revenue and the net profit of the Group for the year ended 31 March 2020 would have been HK\$8,694,919,000 and HK\$2,500,208,000 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 2019, nor are they intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

42. BUSINESS COMBINATIONS (Continued)

- (e) On 28 February 2020, the Group entered into the capital injection agreement with the independent shareholders of 雷州市華洋水務有限公司 (“Leizhou Huayang Water”), that the Group shall contribute RMB58,000,000 (approximately HK\$65,169,000) for capital injection in Leizhou Huayang Water (the “Capital Injection”). The Group previously held 40% equity interest of Leizhou Huayang Water, which was accounted for as an associate as at 31 March 2019. The Group will hold 57.14% equity interest of Leizhou Huayang Water upon completion of the Capital Injection. The Capital Injection was completed on 28 February 2020. Leizhou Huayang Water is principally engaged in water supply business.

The acquisition was made as part of the Group’s strategy to facilitate the water supply business in the PRC.

The transaction was treated by the management as business combination without the transfer of consideration because the cash contribution from the Group to Leizhou Huayang Water remained under the Group’s control.

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

	HK\$'000
Capital injection	65,169
Fair value of the Group’s interest previously held in Leizhou Huayang Water	48,884
Fair value of net identified assets acquired	<u>(49,629)</u>
Goodwill (note 21)	<u><u>64,424</u></u>

The goodwill of HK\$64,424,000, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

42. BUSINESS COMBINATIONS (Continued)

(e) (Continued)

The fair value of identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	592	592
Right-of-use assets	6,257	6,257
Other intangible assets	95,838	95,838
Inventories	5,267	5,267
Trade receivables	4,231	4,231
Due from non-controlling equity holders of subsidiaries	3,959	3,959
Prepayments, deposits and other receivables	68,121	68,121
Cash and cash equivalents	6,915	6,915
Lease liabilities	(2,575)	(2,575)
Contract liabilities	(2,843)	(2,843)
Trade payables	(1,569)	(1,569)
Accrued liabilities, deposits received and other payables	(13,407)	(13,407)
Borrowings	(65,506)	(65,506)
Non-controlling interests	(55,651)	(55,651)
Net identifiable assets attributed to the Group acquired	49,629	49,629
Cash and cash equivalents in business acquired and net cash inflow arising on transaction		6,915

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

Since its acquisition, Leizhou Huayang Water contributed revenue of HK\$5,624,000 and net profit of HK\$2,261,000 to the Group for the period from 28 February 2020 to 31 March 2020.

Had the combination been taken place on 1 April 2019, the revenue and the net profit of the Group for the year ended 31 March 2020 would have been HK\$8,740,803,000 and HK\$2,510,654,000 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 2019, nor are they intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

42. BUSINESS COMBINATIONS (Continued)

- (f) On 6 March 2020, the Group entered into an agreement with an independent third party, 寶豐縣人民政府 (“Baofeng Government”), that the Group and Baofeng Government shall establish a new company, 寶豐縣銀龍水務有限公司 (“Baofeng Silver Dragon Water”), to run a water supply business. The Group shall contribute 70% registered capital of Baofeng Silver Dragon Water by way of cash (RMB140,000,000) and Baofeng Government shall contribute the remaining 30% interest of Baofeng Silver Dragon Water by way of assets and the water supply business in Baofeng Silver Dragon Water. The above transaction was completed on 31 March 2020.

The transaction was made as part of the Group’s strategy to facilitate the water supply business in the PRC.

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

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

	Fair value HK\$'000	Carrying amount HK\$'000
Right-of-use assets	7,888	7,888
Other intangible assets	56,217	56,217
Prepayments, deposits and other receivables	3,311	3,311
Non-controlling interests	(67,416)	(67,416)
Net identifiable assets attributed to the Group acquired	–	–
Cash and cash equivalents in business acquired and net cash inflow arising on transaction		–

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

Since its acquisition, Baofeng Silver Dragon Water did not contribute any revenue or net profit on 31 March 2020.

Had the combination been taken place on 1 April 2019, the revenue and the net profit of the Group for the year ended 31 March 2020 would have been HK\$8,714,793,000 and HK\$2,504,826,000 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 2019, nor are they intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

43. DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2020, the Group disposed several subsidiaries and recognised a net loss on disposal of approximately HK\$348,000.

44. COMMITMENTS AND GUARANTEES

(a) Capital commitments

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

	2020 HK\$'000	2019 HK\$'000
Contracted, but not provided for		
– Other intangible assets	422,944	332,477
– Property, plant and equipment	24,374	20,844
	447,318	353,321

(b) Operating lease arrangement

As lessee

From 1 April 2019, the Group has recognised right-of-use assets for the leases (notes 3 and 17(b)).

At 31 March 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	HK\$'000
Within one year	46,649
In the second to fifth years, inclusive	151,329
After five years	176,696
	374,674

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

44. COMMITMENTS AND GUARANTEES (Continued)

(b) Operating lease arrangement (Continued)

As lessor

The Group leases its investment properties under operating lease arrangements for terms ranging from one to ten years (2019: one to ten years) in average. Certain leases contain an option to renew the lease and renegotiate 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:

	2020 HK\$'000	2019 HK\$'000
Within one year	32,864	37,557
In the second to fifth years, inclusive	32,715	52,591
After five years	344	5,631
	65,923	95,779

(c) As at 31 March 2020, the Group had commitment to make direct capital injections to its associates operating in the PRC of approximately HK\$3,792,000 (2019: HK\$3,971,000).

(d) As at 31 March 2020, the Group had given guarantees to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$1,349,000 (2019: HK\$1,722,000).

In the opinion of the directors of the Company, the financial impact arising from the above guarantees is insignificant due to low applicable default rate and accordingly, they are not accounted for in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

45. 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:

	2020 HK\$'000	2019 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	48,938	48,990
– Retirement scheme contribution	636	728
	<u>49,574</u>	<u>49,718</u>

(b) Other transactions

(i) Subscription of equity interest in a subsidiary

On 21 June 2018, the Group and certain subscribers entered into the subscription agreements pursuant to which the subscribers agreed to subscribe for an aggregate of approximately 4.39% equity interest in Shenzhen Gold Tact Environmental Holdings Co. Ltd (“Gold Tact”), a wholly owned subsidiary of the Company at the total subscription price of approximately RMB138 million, equivalent to HK\$162 million. Gold Tact and its subsidiaries are principally engaged in sewage treatment and drainage operation and water related construction, solid waste and hazardous waste business, environmental sanitation and water environment management in the PRC. Mr. Li Zhong, Ms. Liu Yu Jie, Ms. Wang Xiaoqin, being the directors of the Company, certain directors of the Company’s subsidiaries and various employees/consultant of the Group have equity interests in those subscribers.

The above related party transaction also constitutes connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

45. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions (Continued)

(ii) Formation of a joint venture

On 21 February 2019, the Company, Toray Industries, Inc, ORIX China Investment Corporation (“ORIX China”) and Xinyu Silver Dragon Water Equipment Co. Ltd. entered into the joint venture agreement to establish the joint venture company which will be principally engaged in, among others, production and sale of pipeline direct drinking equipment, water purification equipment and other water treatment equipment and services (“JV Company”). The registered capital of the JV Company shall be RMB50 million. The total investment of the JV Company shall be RMB120 million. The Company shall contribute RMB27.5 million in cash towards the registered capital of the JV Company and hold 55% of the equity interest in the JV Company. ORIX China is a subsidiary of ORIX Corporation which is a substantial shareholder of the Company.

The above related party transaction also constitutes connected transactions as defined in Chapter 14A of the Listing Rules.

(iii) Sales to an associate

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

	2020 HK\$'000	2019 HK\$'000
Sales to an associate	<u>36,079</u>	<u>–</u>

The Group provided construction services of approximately HK\$36,079,000 (2019: HK\$Nil) to a subsidiary of Kangda International, an associate of the Group. The services were made with reference to the terms negotiated between both parties.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Movements of financial liabilities arising from financing activities

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings
	HK\$'000
At 1 April 2018	10,882,052
Changes from financing cash flows	3,894,160
Increase arising from acquisition of subsidiaries	304,872
Decrease arising from disposal of subsidiaries	(11,765)
Others	37,415
Exchange differences	(175,120)
	<hr/>
At 31 March 2019 and 1 April 2019	14,931,614
Changes from financing cash flows	2,561,493
Increase arising from acquisition of subsidiaries (note 42)	122,414
Others	46,079
Exchange differences	(272,583)
	<hr/>
At 31 March 2020	17,389,017
	<hr/> <hr/>

(b) Major non-cash transactions

In addition to those disclosed elsewhere in the consolidated financial statements, during the year ended 31 March 2020, the partial consideration of HK\$1,200,000,000 for acquisition of an associate, Kangda International, was settled by other receivables of approximately HK\$588,235,000 (note 23(i)).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company

Notes	2020 HK\$'000	2019 HK\$'000
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	149	372
Interests in subsidiaries	2,653,455	2,090,753
Interest in an associate	187,245	187,245
Financial assets at fair value through other comprehensive income	8,799	13,701
Other receivables	–	588,235
	2,849,648	2,880,306
Current assets		
Due from subsidiaries	6,039,188	5,006,320
Due from associates	–	7,318
Prepayments, deposits and other receivables	41,237	31,157
Pledged deposits	678,102	193,750
Cash and cash equivalents	1,523,279	2,065,698
	8,281,806	7,304,243
Current liabilities		
Due to subsidiaries	228,477	171,293
Due to an associate	3,441	–
Accrued liabilities, deposits received and other payables	92,361	90,557
Borrowings	1,673,859	1,167,147
	1,998,138	1,428,997
Net current assets	6,283,668	5,875,246
Total assets less current liabilities	9,133,316	8,755,552
Non-current liabilities		
Borrowings	8,875,767	7,699,488
Deferred government grants	2,370	2,370
	8,878,137	7,701,858
Net assets	255,179	1,053,694
EQUITY		
Share capital	39	16,089
Reserves	47(b)	239,139
Total equity	255,179	1,053,694

Approved and authorised for issue by the board of directors on 29 June 2020 and are signed on its behalf by:

Duan Chuan Liang
Director

Ding Bin
Director

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(b) Movement of reserves of the Company

	Proposed final dividend HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Share options reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2018	241,335	995,193	117,217	3,064	96,808	(1,394)	138,710	1,590,933
Share premium reduction	-	(995,193)	995,193	-	-	-	-	-
Final dividend 2018 (note 13)	(241,335)	-	-	-	-	-	-	(241,335)
Interim dividend 2019 (note 13)	-	-	(193,068)	-	-	-	-	(193,068)
Transactions with owners	(241,335)	(995,193)	802,125	-	-	-	-	(434,403)
Proposed final dividend 2019 (note 13)	257,424	-	(257,424)	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	(119,641)	(119,641)
Other comprehensive income								
– Currency translation	-	-	-	-	-	716	-	716
Total comprehensive income/(loss) for the year	-	-	-	-	-	716	(119,641)	(118,925)
Balance at 31 March 2019	257,424	-	661,918	3,064	96,808	(678)	19,069	1,037,605

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(b) Movement of reserves of the Company (Continued)

	Proposed final dividend HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Share options reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 April 2019	257,424	661,918	3,064	-	96,808	(678)	19,069	1,037,605
Share repurchase (note 39)	-	(34,168)	-	-	-	-	-	(34,168)
Share repurchase expenses	-	(119)	-	-	-	-	-	(119)
Final dividend 2019 (note 13)	(257,424)	779	-	-	-	-	-	(256,645)
Interim dividend 2020 (note 13)	-	(224,564)	-	-	-	-	-	(224,564)
Transactions with owners	(257,424)	(258,072)	-	-	-	-	-	(515,496)
Proposed final dividend 2020 (note 13)	256,645	(256,645)	-	-	-	-	-	-
Transfer to capital redemption reserve (note 41)	-	-	49	-	-	-	(49)	-
Loss for the year	-	-	-	-	-	-	(278,962)	(278,962)
Other comprehensive (loss)/income								
– Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	(4,902)	-	-	-	(4,902)
– Currency translation	-	-	-	-	-	894	-	894
Total comprehensive (loss)/income for the year	-	-	-	(4,902)	-	894	(278,962)	(282,970)
Balance at 31 March 2020	256,645	147,201	3,113	(4,902)	96,808	216	(259,942)	239,139

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(b) Movement of reserves of the 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 reductions. 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.

The share options reserve represents the cumulative expenses recognised on the granting of share options to the employees over the vesting period.

Notes to the Consolidated Financial Statements

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(a) General information of principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2020 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	
China Water Supply Group Limited	Hong Kong	Ordinary shares of HK\$2	–	100%	Investment holding
Fortune Trend Holdings Limited	Hong Kong	Ordinary share of HK\$1	–	100%	Investment holding
GT Water Holdings Limited	Hong Kong	Ordinary shares of RMB113,911,451	–	100%	Investment holding
Gold Tact (Hong Kong) Limited	Hong Kong	Ordinary shares of HK\$100,545,366	100%	–	Investment holding
Hang Da Holdings (HK) Limited	Hong Kong	Ordinary shares of HK\$10,000	100%	–	Investment holding
Legend Target Limited	Hong Kong	Ordinary share of HK\$1	–	80.66%	Investment holding
China Water Property (Hong Kong) Investment Limited	Hong Kong	Ordinary shares of HK\$10,000	–	70%	Investment holding
China Water Group (HK) Limited	British Virgin Islands ("BVI")/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
China Water International Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
Oceanup Investments Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
Ming Hing Waterworks Engineering (PRC) Ltd.	BVI/Hong Kong	100 ordinary shares of US\$1 each	–	100%	Investment holding
Business Decade Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
New Prospect Global Limited	BVI/Hong Kong	10,000 ordinary shares of US\$1 each	–	80.66%	Investment holding
New Prime Holdings Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
Create Capital Development Limited	BVI/Hong Kong	100 ordinary shares of US\$1 each	–	70%	Investment holding
Goldtrust Water Holdings Limited	Cayman Islands/ Hong Kong	100 ordinary shares of US\$1 each	–	100%	Investment holding

Notes to the Consolidated Financial Statements

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
Jianhe Holdings Group Limited	Bermuda/Hong Kong	10,000 ordinary shares of HK\$0.01 each	–	80.66%	Investment holding
銀龍水務投資有限公司#	PRC	Registered capital of RMB1,000,000,000	100%	–	Investment holding
上海倍臣水務發展有限公司^	PRC	Registered capital of RMB404,000,000	–	100%	Investment holding
上海銀龍股權投資有限公司^	PRC	Registered capital of RMB1,000,000,000	–	100%	Investment holding
江河水務有限公司^	PRC	Registered capital of RMB225,000,000	–	100%	Investment holding
河南銀龍供水有限公司*	PRC	Registered capital of RMB287,000,000	–	100%	Investment holding
深圳金達環境控股有限公司*	PRC	Registered capital of RMB602,282,275	–	88.07%	Investment holding
深圳市金信安水務集團有限公司#	PRC	Registered capital of RMB400,000,000	–	100%	Investment holding
廣東新晟環保集團有限公司^	PRC	Registered capital of RMB323,890,000	–	88.07%	Investment holding
河南國源水務有限公司^	PRC	Registered capital of RMB300,000,000	–	100%	Investment holding, construction and operation of water conservation and hydropower related projects
荊州水務集團有限公司(ii)*	PRC	Registered capital of US\$60,589,200	36.9%	14.1%	Investment holding, city water supply and water supply infrastructure
公安縣銀龍水務有限公司^	PRC	Registered capital of RMB173,944,431	–	51%	City water supply and water supply infrastructure
武漢市新洲區長源供水有限公司^	PRC	Registered capital of RMB15,160,000	–	91.79%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
漢川市新河自來水有限公司 [^]	PRC	Registered capital of RMB10,000,000	–	100%	City water supply and water supply infrastructure
新余水務集團有限公司 [#]	PRC	Registered capital of RMB150,000,000	60%	–	City water supply and water supply infrastructure
宜豐縣銀龍水務有限公司*	PRC	Registered capital of RMB52,800,000	55%	–	City water supply and water supply infrastructure
江河港武水務(常州)有限公司(ii) [^]	PRC	Registered capital of RMB237,000,000	–	40%	City water supply and water supply infrastructure
重慶市永川區橋立水務有限公司 [#]	PRC	Registered capital of RMB200,000,000	100%	–	City water supply and water supply infrastructure
重慶墊江水務有限公司*	PRC	Registered capital of RMB250,000,000	56%	–	City water supply and water supply infrastructure
高安水務有限公司*	PRC	Registered capital of RMB60,000,000	60%	–	City water supply and water supply infrastructure
高安市昌西供水有限公司 [^]	PRC	Registered capital of RMB2,000,000	–	60%	City water supply and water supply infrastructure
高安市八景供水有限公司 [^]	PRC	Registered capital of RMB5,000,000	–	60%	City water supply and water supply infrastructure
高安市新街供水有限公司 [^]	PRC	Registered capital of RMB1,000,000	–	60%	City water supply and water supply infrastructure
高安市沙湖供水有限公司 [^]	PRC	Registered capital of RMB500,000	–	60%	City water supply and water supply infrastructure
高安瑞西供水有限公司 [^]	PRC	Registered capital of RMB1,000,000	–	60%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

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48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
長沙(中國水務)集團有限公司*	PRC	Registered capital of RMB200,000,000	–	90%	City water supply and water supply infrastructure
長沙水杯子直飲水工程設備有限公司(i)*	PRC	Registered capital of RMB20,000,000	–	51%	Direct drinking water operation and construction
寧鄉中水煤城供水有限公司^	PRC	Registered capital of RMB5,000,000	–	90%	City water supply and water supply infrastructure
寧鄉市銀龍農村水務有限公司^	PRC	Registered capital of RMB20,000,000	–	90%	City water supply and water supply infrastructure
惠州中水水務發展有限公司*	PRC	Registered capital of RMB200,000,000	20%	50%	City water supply and water supply infrastructure
惠州大亞灣溢源淨水有限公司^	PRC	Registered capital of RMB248,612,103	–	59.78%	City water supply and water supply infrastructure
河源市水業集團發展有限公司^	PRC	Registered capital of RMB100,000,000	–	62.66%	City water supply and water supply infrastructure
和平縣天平供水有限公司^	PRC	Registered capital of RMB18,800,000	–	90%	City water supply and water supply infrastructure
博羅縣長寧閩恒供水有限公司#	PRC	Registered capital of HK\$16,800,000	–	100%	City water supply and water supply infrastructure
博羅縣羅浮山清景供水有限公司^	PRC	Registered capital of RMB10,000,000	–	100%	City water supply and water supply infrastructure
龍川縣眾誠水務有限公司^	PRC	Registered capital of RMB10,000,000	–	100%	City water supply and water supply infrastructure
雷州市華洋水務有限公司(ii)(ii)*	PRC	Registered capital of RMB70,000,000	–	47.14%	City water supply and water supply infrastructure
深圳市大工業區水務有限公司^	PRC	Registered capital of RMB45,500,000	–	56.04%	City water supply, water supply infrastructure, drainage operation and construction

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
武陟國源水務有限公司 [^]	PRC	Registered capital of RMB41,333,300 (2019 : RMB31,000,000)	–	75% (2019: 100%)	City water supply and water supply infrastructure
平頂山石龍區國源水務有限公司 [^]	PRC	Registered capital of RMB25,000,000	–	60%	City water supply and water supply infrastructure
葉縣國源水務有限公司 [^]	PRC	Registered capital of RMB27,000,000 (2019 : RMB37,000,000)	–	77.78% (2019: 83.78%)	City water supply and water supply infrastructure
夏邑縣聽辰自來水有限公司 [^]	PRC	Registered capital of RMB50,000,000 (2019: RMB4,649,530)	–	100%	City water supply and water supply infrastructure
郟縣銀龍水務有限公司 [^]	PRC	Registered capital of RMB100,000,000	–	80%	City water supply and water supply infrastructure
周口銀龍水務有限公司 [*]	PRC	Registered capital of HK\$51,000,000	–	70%	City water supply and water supply infrastructure
河南鹿邑銀龍供水有限公司 [^]	PRC	Registered capital of RMB14,000,000	–	100%	City water supply and water supply infrastructure
河南銀龍(扶溝)供水有限公司 [^]	PRC	Registered capital of RMB14,000,000	–	100%	City water supply and water supply infrastructure
河南銀龍(西華)供水有限公司 [^]	PRC	Registered capital of RMB14,000,000	–	100%	City water supply and water supply infrastructure
寶豐縣銀龍水務有限公司(i) [*]	PRC	Registered capital of RMB200,000,000	–	70%	City water supply and water supply infrastructure
舞鋼市銀龍水務有限公司(i) [#]	PRC	Registered capital of RMB20,000,000	–	100%	City water supply and water supply infrastructure
淮陽縣上善水務有限公司(i) [#]	PRC	Registered capital of RMB80,000,000	–	100%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
魯山縣銀龍水務有限公司(i)*	PRC	Registered capital of RMB120,108,000	–	80%	City 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%	City water supply and water supply infrastructure
江西萬年銀龍水務有限責任公司*	PRC	Registered capital of US\$56,390,000 (2019: US\$52,090,000)	–	100%	City water supply
吉安水務集團有限公司^	PRC	Registered capital of RMB120,000,000	–	70%	City water supply and water supply infrastructure
吉安銀龍水務有限公司^	PRC	Registered capital of RMB87,320,000	–	50.4%	City water supply and water supply infrastructure
蘆溪水務有限公司*	PRC	Registered capital of RMB62,308,750	30%	30%	City water supply and water supply infrastructure
萍鄉水務有限公司*	PRC	Registered capital of RMB282,000,000	26%	25%	City water supply and water supply infrastructure
萍鄉市春雨水業有限公司^	PRC	Registered capital of RMB10,000,000	–	51%	City water supply and water supply infrastructure
懷化銀龍水務有限公司*	PRC	Registered capital of RMB30,000,000	30%	56.55%	City water supply and water supply infrastructure
懷化沅辰水務有限公司*	PRC	Registered capital of RMB76,581,697	–	65%	City water supply and water supply infrastructure
九江彭澤銀龍水務有限公司*	PRC	Registered capital of RMB102,734,375	49%	11%	City water supply and water supply infrastructure
運城銀龍水務有限公司*	PRC	Registered capital of RMB85,964,273	–	51%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
運城市鹽湖區舜源城鄉供排水有限公司 [^]	PRC	Registered capital of RMB20,000,000	–	51%	City water supply and water supply infrastructure
運城弘益水務有限公司*	PRC	Registered capital of RMB100,000,000	–	64.52%	City water supply and water supply infrastructure
夏縣銀龍水務有限公司(i)*	PRC	Registered capital of RMB35,000,000	–	56.4%	City water supply and water supply infrastructure
隆堯銀龍水務有限公司*	PRC	Registered capital of RMB55,000,000	–	73%	City water supply and water supply infrastructure
常德安鄉銀龍水務有限公司*	PRC	Registered capital of RMB50,000,000	–	70%	City water supply and water supply infrastructure
江西黃崗山水務發展有限公司*	PRC	Registered capital of RMB80,000,000	–	75%	City water supply and water supply infrastructure
鶴崗三立水務有限公司*	PRC	Registered capital of RMB153,708,300 (2019: RMB63,488,000)	–	55%	City water supply, water supply infrastructure and drainage operation
分宜銀龍水務有限公司*	PRC	Registered capital of RMB75,000,000	66.67%	33.33%	City water supply and water supply infrastructure
上栗銀龍水務有限公司 [^]	PRC	Registered capital of RMB99,500,000 (2019: RMB14,500,000)	–	60%	City water supply and water supply infrastructure
鉛山縣銀龍水務有限公司 [#]	PRC	Registered capital of RMB55,500,000	–	100%	City water supply and water supply infrastructure
宜春銀龍水務有限公司 [#]	PRC	Registered capital of RMB38,000,000	–	100%	City water supply
海南興水城鄉供水有限公司 [^]	PRC	Registered capital of RMB15,830,000	–	56.85%	City water supply
北京江河京威水務有限公司 [^]	PRC	Registered capital of RMB10,000,000	–	70%	City water supply

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
昌邑騰昊自來水有限公司 [^]	PRC	Registered capital of RMB65,000,000	–	100%	City water supply and water supply infrastructure
江西銀龍水環境建設有限責任公司 [^]	PRC	Registered capital of RMB400,000,000	–	70.46%	City water supply and water environmental renovation infrastructure
寶雞市金信安水務有限公司 [^]	PRC	Registered capital of RMB42,680,000	–	100%	Sewage treatment
寶雞市陳倉金信安水務有限公司 [^]	PRC	Registered capital of RMB12,000,000	–	100%	Sewage treatment
寶雞市大通水務有限公司 [^]	PRC	Registered capital of RMB5,000,000	–	88.07%	Sewage treatment
荊州中水環保有限公司 [^]	PRC	Registered capital of RMB63,749,400 (2019: US\$8,200,000)	–	88.07%	Sewage treatment operation and construction
萬年縣中水環保有限公司 [^]	PRC	Registered capital of RMB53,000,000	–	88.07%	Sewage treatment operation and construction
分宜中水環保有限公司 [^]	PRC	Registered capital of RMB18,000,000	–	88.07%	Sewage treatment operation and construction
鉛山縣中水環保有限公司 [^]	PRC	Registered capital of RMB13,470,000 (2019: US\$2,000,000)	–	88.07%	Sewage treatment operation and construction
天津正坤水處理有限公司 [^]	PRC	Registered capital of RMB2,300,000	–	88.07%	Sewage treatment operation and construction
天津重科水處理有限公司 [^]	PRC	Registered capital of RMB1,000,000	–	88.07%	Sewage treatment operation and construction
邯鄲市峰峰錦晨污水處理有限公司 [^]	PRC	Registered capital of RMB1,000,000	–	88.07%	Sewage treatment operation and construction
邯鄲成晟水務有限公司 [^]	PRC	Registered capital of RMB21,000,000	–	88.07%	Sewage treatment operation and construction

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (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	
邯鄲市峰峰礦區世晟中水處理有限公司 [^]	PRC	Registered capital of RMB6,000,000	-	88.07%	Sewage treatment
鹿邑新晟中水環保有限公司 [^]	PRC	Registered capital of RMB6,000,000	-	88.07%	Sewage treatment operation and construction
鹿邑金達環保有限公司 [^]	PRC	Registered capital of RMB15,000,000	-	88.07%	Sewage treatment operation and construction
北京同晟水淨化有限公司 [^]	PRC	Registered capital of RMB13,000,000	-	88.07%	Sewage treatment operation and construction
高安新晟中水環保有限公司 [^]	PRC	Registered capital of RMB6,000,000	-	88.07%	Sewage treatment
常州市大通水務有限公司 [^]	PRC	Registered capital of RMB5,000,000	-	88.07%	Sewage treatment operation and construction
鎮平新晟中水環保有限公司 [^]	PRC	Registered capital of RMB21,000,000 (2019: RMB6,000,000)	-	88.07%	Sewage treatment
惠州大亞灣清源環保有限公司 [^]	PRC	Registered capital of RMB15,000,000	-	61.65%	Sewage treatment
深圳市大通水務有限公司 [^]	PRC	Registered capital of RMB108,780,000	-	88.07%	Drainage operation and construction
金中環保(陸河)有限公司 [^]	PRC	Registered capital of RMB48,900,000	-	70%	Drainage operation, sewage treatment operation and construction
漢川銀龍水務有限公司 [^]	PRC	Registered capital of RMB43,000,000	-	100%	Sewage treatment operation and construction

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (Continued)

Name	Place of incorporation/ establishment/ operation	Particulars of issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
惠州中海節能環保技術服務有限公司(ii)^	PRC	Registered capital of RMB10,000,000	–	44.92%	Energy conservation and environmental protection
北京上河元酒店有限公司^	PRC	Registered capital of RMB171,600,000	–	100%	Property investment
北京中水建投實業有限公司^	PRC	Registered capital of RMB211,350,000	–	100%	Property development and investment
荊州水務隆錦置業有限公司^	PRC	Registered capital of RMB80,000,000	–	51%	Property development and investment
周口銀龍置業有限公司^	PRC	Registered capital of RMB8,000,000	–	70%	Property development and investment
河南銀龍房地產開發有限責任公司^	PRC	Registered capital of RMB50,000,000	–	100%	Property development and investment
寧鄉水務置業有限公司^	PRC	Registered capital of RMB20,000,000	–	90%	Property development and investment
重慶金錦駿昌實業有限公司^	PRC	Registered capital of RMB61,200,000	–	100% (2019: 60%)	Property development and investment
新余仙女湖新城房地產開發有限公司^	PRC	Registered capital of RMB20,500,000	–	67.73% (2019: 63.63%)	Property development and investment
杭州臨普貿易有限公司^	PRC	Registered capital of RMB30,000,000	–	100%	Property development and investment
杭州銀龍中水實業發展有限公司^	PRC	Registered capital of RMB30,000,000	–	100%	Property development and investment
鹿邑縣銀龍欣源置業有限公司^	PRC	Registered capital of RMB50,000,000 (2019: RMB10,000,000)	–	100%	Property development and investment
新余仙女湖新城旅游開發有限公司*	PRC	Registered capital of RMB144,948,500	22.77%	44.96% (2019: 40.86%)	Development and infrastructure of sightseeing area
江蘇河海置業有限公司*	PRC	Registered capital of RMB57,500,000	–	100% (2019: 85.51%)	Hotel operation

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(a) General information of principal subsidiaries (Continued)

Notes:

- * 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 2020
- (ii) accounted for as subsidiaries of the Group because the directors are of the opinion that the Group has power over the investee through control of the board of the subsidiaries, exposure to variable returns from the investee and the ability to use its power to affect those variable returns.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, 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 of the Company, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

(b) General information of associates

Particulars of the Group's associates with water supply and sewage treatment as their principal activities as at 31 March 2020 are as follows:

Name	Place of establishment/ operation	Particulars of registered capital	Group's effective interest held/ profit sharing	Principal activities
廣州市增城自來水有限公司	PRC	RMB167,500,000	40.82%	City water supply and water supply infrastructure
梧州粵海江河水務有限公司	PRC	RMB110,000,000	49%	City water supply
常州禹安水務有限公司	PRC	RMB72,963,100	29%	Sewage treatment operation and sewage treatment infrastructure
Kangda International Environmental Company Limited	Cayman Islands	HK\$50,000,000	29.52%	Construction and operations in urban water treatment businesses, water environment comprehensive remediation and rural water improvement
中原水務集團有限公司 (formerly known as 中原康達環保產業有限公司)	PRC	RMB500,000,000	29%	Construction and operations in urban water treatment businesses, water environment comprehensive remediation and rural water improvement

Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

49. EVENT AFTER THE REPORTING PERIOD

On 1 April 2020, the Company entered into a subscription agreement (the "Subscription Agreement") with Baring Private Equity Asia V Holding (5) Limited ("BPEA") (the "Proposed Subscription") pursuant to which the Company conditionally agreed to subscribe for, and BPEA conditionally agreed to issue, the exchangeable bonds for a consideration of approximately HK\$361.3 million (the "Exchangeable Bonds"). The consideration shall be satisfied by the Company issuing the convertible bonds to BPEA to convert into up to 44,886,521 ordinary shares of the Company ("Conversion Share") at the initial conversion price (subject to adjustment) of HK\$8.05 per Conversion Share (the "Convertible Bonds"). BPEA conditionally agreed to subscribe for the Convertible Bonds of the Company in an aggregate principal amount of approximately HK\$361.3 million.

The Exchangeable Bonds will initially entitle the holder thereof to exchange for 344,129,996 ordinary shares of Kangda International (subject to adjustment), representing approximately 16.93% of the entire issued share capital of Kangda International, owned by BPEA as at the date of the Subscription Agreement. The ordinary shares of Kangda International are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (stock code: 6136) ("Kangda Shares"). The right of the holder of the Exchangeable Bonds to exchange the principal amount of the Exchangeable Bonds into Kangda Shares is in accordance with the terms and conditions of the Exchangeable Bonds ("Exchange Right"). The Company will nominate Sharp Profit Investments Limited ("Sharp Profit"), a wholly-owned subsidiary of the Company, to be the holder of the Exchangeable Bonds upon completion of the Proposed Subscription.

As at the date of the Subscription Agreement, Sharp Profit legally and beneficially holds approximately 29.52% of the entire issued share capital of Kangda International. Upon completion of the Proposed Subscription, Sharp Profit's shareholding in Kangda International remained unchanged and Kangda International will be accounted for as an associate of the Group. Assuming that no new Kangda Shares will be issued to any person from the date of the Subscription Agreement and up to the date of exercising the Exchange Right in full, Sharp Profit will own a total of approximately 46.45% of the entire issued share capital of Kangda International upon full exercise of the Exchange Right.

Further details of which are disclosed in the Company's announcement dated 1 April 2020. The Proposed Subscription was completed on 8 May 2020 and the Convertible Bonds and the Exchangeable Bonds were issued on 8 May 2020 accordingly.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2020.

Particulars of Properties Held for Investment

For the year ended 31 March 2020

Location	Type	Lot number/ Reference number	Lease term
北京市宣武區南綫閣街68號	Residential	N/A	Expiring on 29 December 2076
北京市宣武區南綫閣街60號	Industrial	N/A	Expiring on 11 June 2058
重慶市永川區大安工業園區	Industrial	GY01870	Expiring on 30 April 2053
重慶市永川區大安工業園區	Industrial	GY02406	Expiring on 27 June 2050
重慶市永川區大安工業園區	Industrial	GY02695	Expiring on 30 April 2053
重慶市銅梁區蒲呂街道辦事處產業大道66號	Industrial	N/A	Expiring on 18 July 2065

Note: Insignificant properties held for investment are not included.

Particulars of Properties Held Under Development

For the year ended 31 March 2020

Location	Interest attributable to the Group in percentage	Floor area on completion in sq. m. (approx.)	Type of development	Stage of completion
江西省新余市仙女湖大道北側	67.73%	190,000	Commercial/ residential	Construction in progress
江西省新余市清宜公路以南界水河東側及天仙路東側	67.73%	122,000	Commercial/ residential	Construction in progress
江西省新余市仙女湖大道北側	67.73%	41,000	Commercial/ residential	Construction in progress
鹿邑縣明道路西側、紫氣大道北側	100%	73,000	Commercial/ residential	Construction in progress
鹿邑縣西迎賓大道東側、永興路南側	100%	30,000	Commercial/ residential	Construction in progress
鹿邑縣衛真西路北側隱山路西側	100%	123,000	Commercial/ residential	Construction in progress

Note: Insignificant properties held under development are not included.

Particulars of Properties Held For Sale

For the year ended 31 March 2020

Location	Interest attributable to the Group in percentage	Floor area on completion in sq. m. (approx.)	Type of development	Stage of completion
江西省新余市仙女湖區環湖路南側	67.73%	39,000	Commercial	Completed
湖北省荊州市沙市區江津東路與三灣路交匯處	51%	91,000	Commercial	Completed
武漢市經濟技術開發區龍陽大道與芳草一路交匯處	100%	11,000	Commercial	Completed

Note: Insignificant properties held for sale are not included.

Five-Year Financial Summary

RESULTS

	2020 HK\$'000	Year ended 31 March			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Restated)
Revenue	8,694,303	8,302,211	7,580,176	5,707,895	4,739,902
Profit before income tax	3,164,509	2,772,059	2,462,111	1,962,625	1,505,226
Income tax expense	(657,220)	(641,776)	(700,587)	(583,279)	(405,374)
Profit for the year	2,507,289	2,130,283	1,761,524	1,379,346	1,099,852
Attributable to:					
Owners of the Company	1,639,495	1,369,235	1,140,518	853,634	608,112
Non-controlling interests	867,794	761,048	621,006	525,712	491,740
	2,507,289	2,130,283	1,761,524	1,379,346	1,099,852

ASSETS AND LIABILITIES

	2020 HK\$'000	At 31 March			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000 (Restated)
Total assets	41,902,953	35,824,636	28,589,287	25,631,709	19,971,063
Total liabilities	(27,804,450)	(22,922,166)	(17,434,878)	(16,668,776)	(11,524,621)
Non-controlling interests	(5,590,793)	(4,932,004)	(3,985,825)	(3,347,629)	(3,183,070)
Equity attributable to owners of the Company	8,507,710	7,970,466	7,168,584	5,615,304	5,263,372