



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

Annual Report
2023



* For identification purposes only

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Corporate Information

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
 Ms. Ding Bin
 Ms. Liu Yu Jie (subsequently re-designated to non-executive director with effect from 12 April 2023)
 Mr. Li Zhong
 Mr. Duan Jerry Linnan

Non-executive

Mr. Zhao Hai Hu
 Mr. Makoto Inoue
 Ms. Wang Xiaoqin

Independent Non-executive

Mr. Chau Kam Wing
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan
 Mr. Chan Wai Cheung Admiral
 (resigned on 1 December 2022)

AUDIT COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan
 Mr. Chan Wai Cheung Admiral
 (resigned on 1 December 2022)

REMUNERATION COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan
 Mr. Chan Wai Cheung Admiral
 (resigned on 1 December 2022)

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
 17/F, Far East Finance Centre
 16 Harcourt Road, Admiralty
 Hong Kong

LEGAL ADVISERS

As to Bermuda law
 Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers
 Certified Public Accountants
 Registered Public Interest Entity Auditor

PRINCIPAL BANKER

Asian Development Bank
 Australia and New Zealand Banking Group Limited
 Bank of Communications (Hong Kong) Limited
 Bank of East Asia
 China CITIC Bank

WEBSITE

<http://www.chinawatergroup.com>

STOCK CODE

855

Corporate Information

- **City water supply business**
 - Serving an estimated population of more than 30 million people
 - Water pipelines of approximately 148,000 km
- ★ **Pipeline direct drinking water supply business**
 - Serving an estimated population of approximately 4.5 million people
- **Environmental protection business**
 Sewage treatment operation and construction (including water environmental renovation construction projects)
- ▲ **Drainage operation**



Financial Highlights

	2023 HK\$'000	2022 HK\$'000	Change
RESULTS HIGHLIGHTS			
Revenue	14,194,953	12,949,828	9.6%
Gross profit	5,346,297	4,962,200	7.7%
Profit for the year	3,088,345	2,977,129	3.7%
Profit for the year attributable to owners of the Company	1,856,786	1,893,573	-1.9%
Basic earnings per share (HK\$)	1.14	1.17	-2.6%
Diluted earnings per share (HK\$)	1.14	1.16	-1.7%
Total dividend per share (HK cents)	34	34	–
– Interim dividend (HK cents)	16	16	–
– Final dividend (HK cents)	18	18	–
	2023 HK\$'000	2022 HK\$'000	Change
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	61,164,288	57,064,442	7.2%
Total liabilities	39,992,154	36,581,698	9.3%
Net assets	21,172,134	20,482,744	3.4%
Net assets per share ¹	7.96	7.95	0.1%
Current ratio	0.84	0.86	-2.3%
Gearing ratio ²	65.4%	64.1%	

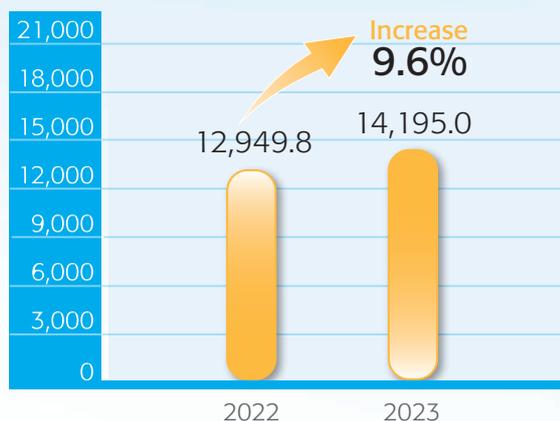
¹ Net assets per share = Equity attributable to owners of the Company/Number of issued shares at year end

² Gearing ratio = Total liabilities/Total assets

Financial Highlights

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

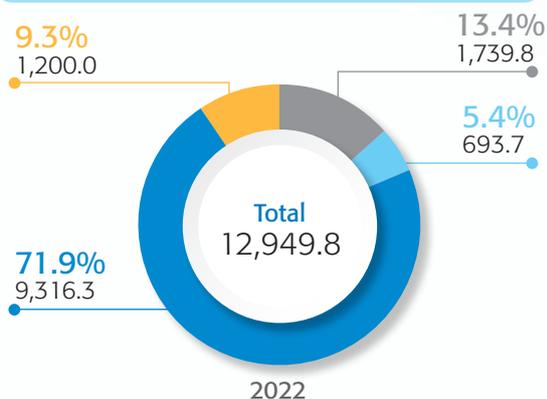
Total revenue (HK\$ million)



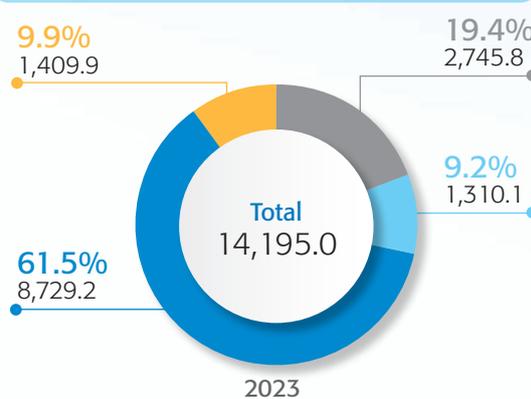
Total profit (HK\$ million)



Total segment revenue (HK\$ million)



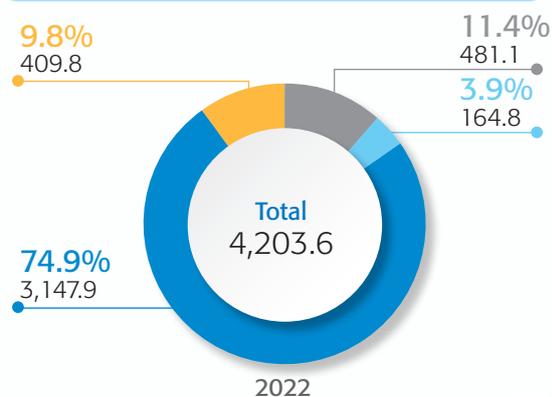
Total segment revenue (HK\$ million)



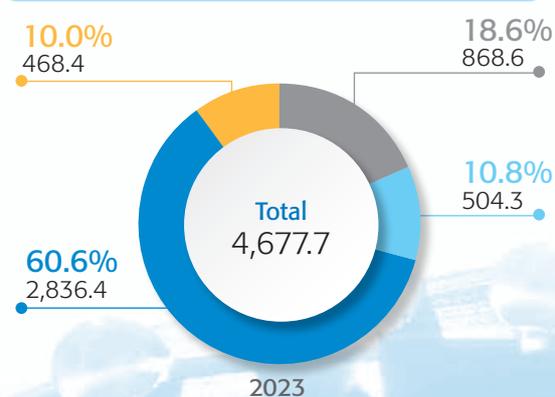
City water supply business Pipeline direct drinking water supply business

Environmental protection business Main contractor construction and others

Total segment profit (HK\$ million)



Total segment profit (HK\$ million)



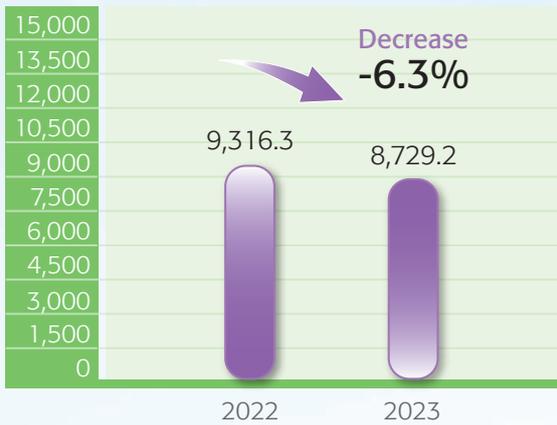
City water supply business Pipeline direct drinking water supply business

Environmental protection business Main contractor construction and others

Financial Highlights

1. City Water Supply Business Analysis

Revenue (HK\$ million)



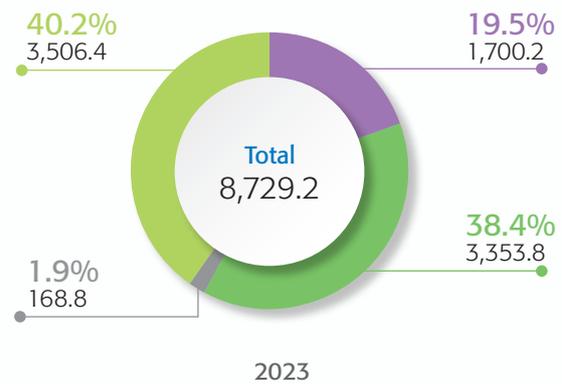
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



City water supply operations

City water supply installation and maintenance services

City water supply construction services

Others

Financial Highlights

2. Pipeline Direct Drinking Water Supply Business Analysis

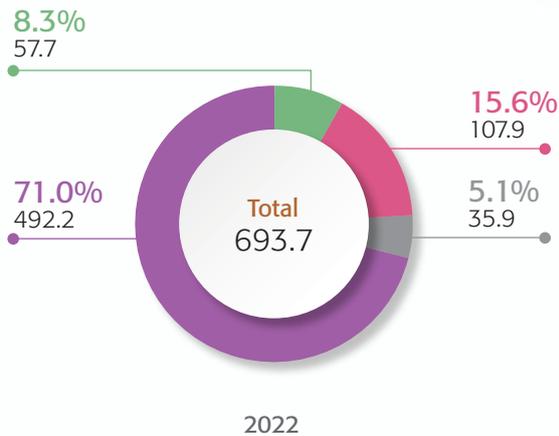
Revenue (HK\$ million)



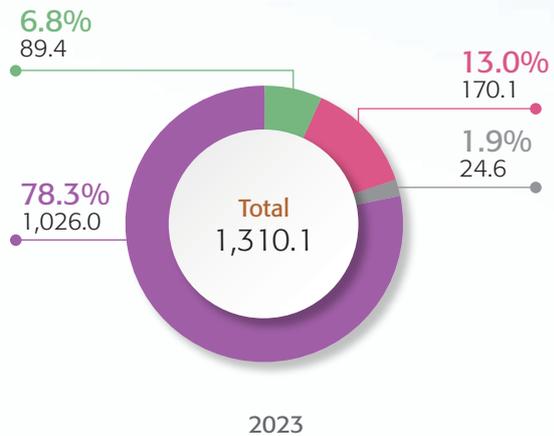
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



Pipeline direct drinking water supply operations

Pipeline direct drinking water supply installation and maintenance services

Pipeline direct drinking water supply construction services

Others

Financial Highlights

3. Environmental Protection Business Analysis

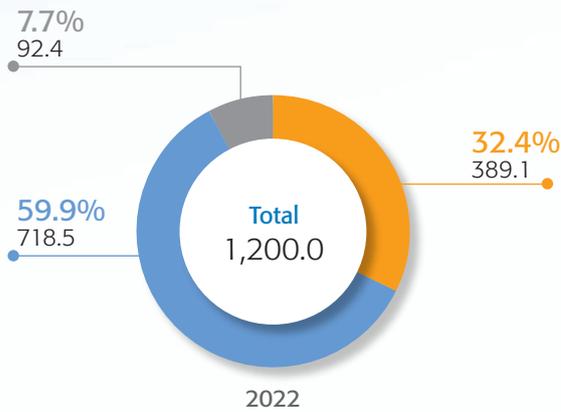
Revenue (HK\$ million)



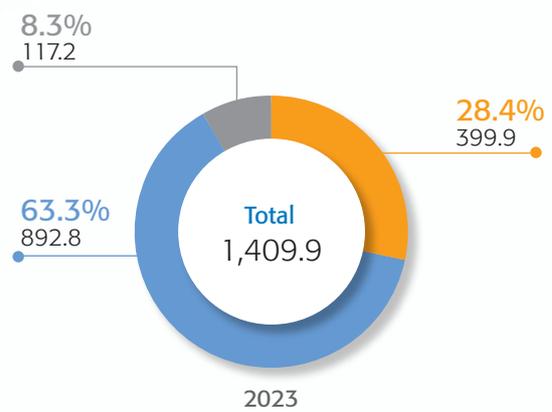
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



Sewage treatment and drainage operations services

Sewage treatment and water environmental renovation construction services

Others

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 2023.

FINANCIAL PERFORMANCE

The Group continued its effort to focus on core business through implementation of the urban-rural water supply integration and supply-drainage integration and active development in pipeline direct drinking water supply business to establish a twin-driver business portfolio of water supply and pipeline direct drinking water. For the year under review, the Group recorded a significant growth in its "Pipeline direct drinking water supply" segment. The total revenue attributable to the "Pipeline direct drinking water supply" segment increased from HK\$693.7 million to HK\$1,310.1 million. The total revenue attributable to the "City water supply", "Pipeline direct drinking water supply" and "Environmental protection" segments increased from HK\$11,210.0 million to HK\$11,449.3 million. This represented a steady and continuous growth of segments revenue by 2.1%.

For the overall result of the year ended 31 March 2023, the Group recorded a revenue of HK\$14,195.0 million, representing a steady increase of 9.6% from HK\$12,949.8 million in last year. The Group recorded a gross profit of HK\$5,346.3 million, representing a steady increase of 7.7% from HK\$4,962.2 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\$1,856.8 million, representing a slight decrease of 1.9% from HK\$1,893.6 million in last year. The basic earnings per share decreased slightly by 2.6% to HK\$1.14 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 HK18 cents per share. Together with the interim dividend of HK16 cents per share, the total dividends for the year will be HK34 cents (2022: an interim dividend of HK16 cents per share, the total dividends for the year will be HK34 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, pipeline direct drinking water, sewage treatment, drainage, water environmental renovation, smart water and related services in the People's Republic of China (the "PRC") and achieving satisfactory results. The Group sustained continuous growth in its city water supply, pipeline direct drinking water and environmental protection businesses, covered an estimated population of more than 30 million people in approximately 70 cities and counties in various provinces. China faces severe shortage of water resources which is further aggravated by accelerating urbanisation and economic growth. In line with the national call for low-carbon green development as well as to upgrade the Group's water supply services, it is expected that the water sector, particularly the pipeline direct drinking water, has huge 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\$12,949.8 million for the year ended 31 March 2022 to HK\$14,195.0 million for the year ended 31 March 2023, representing a steady increase of 9.6%. The Group continued its strategy to focus on core business. For the year under review, the Group recorded a significant growth in its "Pipeline direct drinking water supply" segment. The total revenue attributable to the "Pipeline direct drinking water supply" segment increased from HK\$693.7 million to HK\$1,310.1 million. The total revenue attributable to the "City water supply", "Pipeline direct drinking water supply" and "Environmental protection" segments increased from HK\$11,210.0 million to HK\$11,449.3 million. This represented a steady and continuous growth of segments revenue by 2.1%, which was mainly attributable to the successful strategies of the Group through implementation of the urban-rural water supply integration and supply-drainage integration and active development in pipeline direct drinking water supply business to establish a twin-driver business portfolio of water supply and pipeline direct drinking water.

In the second half of the year ended 31 March 2023, the Group (1) renamed "City water supply operations and construction" segment to "City water supply" segment; (2) began separately presenting the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services and other services under "Pipeline direct drinking water supply" segment; and (3) began separately presenting the provision of municipal public construction services by the Group's subsidiary which possesses grade 1 main contractor qualification under "Main contractor construction" segment. These changes are consistent with the chief operating decision-maker's view of the business. Prior year's corresponding segment information that was presented for comparative purpose has been restated.

(i) City Water Supply Business Analysis

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

For the year under review, the revenue from city water supply segment amounted to HK\$8,729.2 million (2022: HK\$9,316.3 million), representing a decrease of 6.3% as compared with the last corresponding year. The city water supply segment profit amounted to HK\$2,836.4 million (2022: HK\$3,147.9 million), representing a decrease of 9.9% as compared with the last corresponding year. This was mainly because of overall decrease in installation and maintenance works during the year.

Chairman's Statement

(ii) Pipeline Direct Drinking Water Supply Business Analysis

Pipeline direct drinking water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Hubei, Henan, Hebei, Guizhou, Jiangsu, Jiangxi, Guangdong (including Shenzhen), Guangxi, Beijing, Chongqing, Shandong, Shanxi, Anhui, Zhejiang, Yunnan, Sichuan, Ningxia, Fujian, Heilongjiang, Hainan and Liaoning.

For the year under review, the revenue from pipeline direct drinking water supply segment amounted to HK\$1,310.1 million (2022: HK\$693.7 million), representing a significant increase of 88.9% as compared with the last corresponding year. The pipeline direct drinking water supply segment profit amounted to HK\$504.3 million (2022: HK\$164.8 million), representing a significant increase of 206.0% as compared with the last corresponding year. This was mainly because of procurement of more installation and maintenance and construction works and contribution from fast expanding pipeline direct drinking water supply projects during the year.

(iii) Environmental Protection Business Analysis

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

For the year under review, the revenue from environmental protection segment amounted to HK\$1,409.9 million (2022: HK\$1,200.0 million), representing a steady increase of 17.5% as compared with the last corresponding year. The environmental protection segment profit amounted to HK\$468.4 million (2022: HK\$409.8 million), representing a steady increase of 14.3% as compared with the last corresponding year. This was mainly due to procurement of more construction work driven by the supply-drainage integration and expansion of sewage treatment infrastructure in a national level petrochemical area the Group is serving in current year.

(iv) Main Contractor Construction Business Analysis

Main contractor construction projects were carried out by the Group's subsidiary which possesses Grade 1 main contractor qualification for nationwide municipal public construction works in China.

For the year under review, the revenue from external customers of the main contractor construction segment amounted to HK\$1,198.7 million (2022: HK\$389.3 million), representing a significant increase of 207.9% as compared with the last corresponding year. The main contractor construction segment profit amounted to HK\$797.3 million (2022: HK\$408.1 million), representing a significant increase of 95.4% as compared with the last corresponding year. This was mainly due to procurement of more construction work for water supply and sewage treatment projects during the year.

Chairman's Statement

(v) 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\$544.9 million (2022: HK\$531.7 million). The total property business segment profit amounted to HK\$89.1 million (2022: HK\$118.3 million), representing a decrease of 24.7% as compared with the last corresponding year. This was mainly due to the decrease of profit margin in sales of property projects in current year.

For the year under review, the share of results of Kangda International Environmental Company Limited, whose ordinary shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), amounted to HK\$78.0 million (2022: HK\$145.0 million).

PROSPECTS

Looking ahead to 2023, mainland China's business and economic activities will resume, and the Central Government's proactive fiscal and sound monetary policies are expected to continue to stimulate and drive the steady development of the overall economy. As the country's economy develops and people's living standards improve, the demand for quality and healthy drinking water will continue to grow. Pipeline direct drinking water supply will spearhead a new and low-carbon upgrade for domestic water consumption in China, opening the door to a trillion-dollar market. In response to market demand, the Group's pipeline direct drinking water supply business, which has been developed and vigorously promoted for many years, is at the right time to be in line with the new development model and opportunities arising from the "dual carbon" initiative, thereby achieving a higher quality, more efficient, more equitable, more sustainable and safer development model. At the same time, the business will also achieve a higher return on investment. As the Group's core business going forward, the development of pipeline direct drinking water supply will be prioritised through the allocation of various resources such as staff and capital.

Looking ahead and against the backdrop of the dual carbon goals, the Group will take advantage of favourable policies and market opportunities, focus on the principal goal of dual water supply mainly through operation, achieve a sustainable development model with a combination of light and heavy assets, strengthen the creation of new business growth points through technological innovation and green and low-carbon development, enhance operational efficiency and synergies, strengthen our core competitiveness, attain sustainable and high-quality development, contribute to the improvement of people's livelihood and create higher returns for shareholders.

MAJOR ACQUISITIONS AND DISPOSALS

The Group had no material acquisition of subsidiaries during the year ended 31 March 2023. Details of the Group's disposals during the year ended 31 March 2023 are set out in note 41 to the consolidated financial statements.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 March 2023, the Group maintained a satisfactory liquidity level. As at 31 March 2023, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$7,499.1 million (31 March 2022: HK\$6,529.2 million), which are mainly in Hong Kong dollars, Renminbi and United States dollars. The gearing ratio, calculated as a percentage of total liabilities to total assets, is 65.4% (31 March 2022: 64.1%) as at 31 March 2023.

As at 31 March 2023, the Group's current liabilities exceeded its current assets by HK\$3,292.1 million (31 March 2022: net current liabilities of HK\$2,749.5 million). It was mainly due to maturity of the outstanding principal amount of two syndicated bank loans amounting to US\$280 million (approximately HK\$2,184 million) within one year. In the opinion of the directors of the Company, after taken into account the cashflow generated from operations, the internal financial resources, available loan facilities and new loan facilities currently under negotiation, the Group will have sufficient working capital to meet its financial obligation in full as they fall due in the foreseeable future.

As at 31 March 2023, the Group's aggregate outstanding borrowings amounted to HK\$23,627.8 million (31 March 2022: HK\$21,863.5 million), which are mainly in Hong Kong dollars, Renminbi and United States dollars. The increase in overall borrowings was mainly due to the loans raised related to the capital expenditure, repayment of indebtedness and working capital requirements of the Group. 72.5% of such outstanding borrowings was arranged on floating rate basis and the balance of 27.5% was at fixed rate basis. According to the repayment schedule, HK\$8,020.5 million was repayable within one year and the balance of HK\$15,607.3 million was repayable after one year. As at 31 March 2023, the total unutilised loan facilities available to the Group amounted to HK\$7,579.4 million (31 March 2022: HK\$1,680.7 million).

On 3 November 2022, the Company, as guarantor, and Silver Dragon Water Supply Group Limited, a wholly-owned subsidiary of the Company, as borrower, entered into a facilities agreement with banks in respect of the five-year tenor US\$250,000,000 equivalent syndicated loan facilities with a greenshoe option of up to US\$250,000,000 equivalent.

The amount borrowed is expected to be applied for the early prepayment of certain existing bank facilities of the Company. This advance optimisation of debt structure by means of refinancing outstanding loans repayable within one year with long-term loans will remarkably enhance the Group's liquidity position.

As at 31 March 2023, US\$300,000,000 has been drawdown under the syndicated loan facilities and was applied for repayment and early prepayment of certain bank facilities of the Company.

Chairman's Statement

HUMAN RESOURCES

As at 31 March 2023, the Group has employed approximately 11,400 staff. Most of them stationed in the PRC and 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.

The Company had adopted a share option scheme to incentivise the directors, senior management and employees of the Group. During the year ended 31 March 2023, no option was granted by the Company pursuant to the share option scheme.

TREASURY AND FOREIGN EXCHANGE RISK MANAGEMENT

The Group adopted conservative treasury policies in cash and financial management for the year under review. Cash was generally placed in short-term deposits. The Group's liquidity and financing requirements were reviewed regularly.

As Hong Kong dollar was pegged with the United States dollar, the directors of the Company considered that the Group was exposed to limited risk in this aspect.

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 2023 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 2023 was HK\$1,236,005,000 (2022: HK\$133,528,000);
- (d) charges over right-of-use assets in which their aggregate carrying amount as at 31 March 2023 was HK\$356,458,000 (2022: HK\$380,064,000);
- (e) charges over investment properties in which their aggregate carrying amount as at 31 March 2023 was HK\$1,207,807,000 (2022: HK\$1,305,190,000);
- (f) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2023 was HK\$2,240,307,000 (2022: HK\$2,091,205,000);
- (g) charges over properties held for sale in which their aggregate carrying amount as at 31 March 2023 was HK\$78,568,000 (2022: HK\$83,418,000);
- (h) charges over the Group's bank deposits in amount of HK\$514,260,000 as at 31 March 2023 (2022: HK\$506,350,000);
- (i) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 31 March 2023 was HK\$243,023,000 (2022: HK\$261,728,000); and
- (j) charges over receivables under services concession arrangements in which their aggregate carrying amount as at 31 March 2023 was HK\$152,024,000 (2022: HK\$Nil).

Chairman's Statement

CONTINGENT LIABILITIES

As at 31 March 2023, the Group did not have any material contingent liabilities (2022: 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, 27 June 2023

Directors' and Senior Management Biographical Details

DIRECTORS

Chairman and Executive Director

Mr. Duan Chuan Liang, aged 60, was graduated from the North China University of Water Resources and Electric Power with a bachelor's degree in Water Conservancy Engineering and Construction. He is the founder of water business of the Group and has over 30 years of in-depth and distinctive experience in the water industry in China. He joined the Group in 2003.

Executive Directors

Ms. Ding Bin, aged 47, 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. Ms. Ding joined the Group in 2007.

Ms. Liu Yu Jie, aged 58, 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 Energy Holdings Limited (stock code: 3633), which are listed on the main board of the Stock Exchange. She joined the Group in 2014. She was re-designated to non-executive director of the Company with effect from 12 April 2023.

Mr. Li Zhong, aged 54, was graduated from the Beijing Institute 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 1998. He held various key positions with central state-owned enterprises and well-known multinational enterprises. 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, the honorary chairman of the Hong Kong Volunteers Association and a current member of the standing committee of the fourteenth session of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Li is also the co-chairman and executive director of Kangda International Environmental Company Limited (stock code: 6136), which is listed on the main board of the Stock Exchange. He joined the Group in 2015.

Directors' and Senior Management Biographical Details

Mr. Duan Jerry Linnan, aged 32, 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 (stock code: 6136), which is listed on the main board of the Stock Exchange. 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 68, was graduated from Zhejiang University with a master degree in Engineering. Mr. Zhao acted as an assistant to the head of North China University of Water Resources and Electric Power. He was also the head of the infra-structure department and the head of the personnel department. He was a general manager of an irrigation technology company which was principally engaged in the research and development of irrigation and hydroelectric technology. Mr. Zhao has over 40 years' experience in project management, research and development and engineering of irrigation, hydroelectric and water supply. He joined the Group in 2003.

Mr. Makoto Inoue, aged 70, was graduated from Chuo University in Japan with a Bachelor of Law and joined ORIX Corporation in 1975. ORIX Corporation is a diversified multinational financial group and listed on the Tokyo Stock Exchange and New York Stock Exchange, where he is currently a member of the Board of Directors, 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 joined the Group in 2012.

Ms. Wang Xiaoqin, aged 50, was graduated from the Shenzhen University majoring in International Finance, and obtained 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 60, has over 30 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) which is listed on the 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 42, obtained a Bachelor of Business Administration (Accounting) from Hong Kong Baptist University in 2003. He is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Chartered Governance Institute as well as the Institute of Chartered Secretaries and Administrators. Mr. Siu is the executive director and company secretary of Jiu Rong Holdings Limited (stock code: 2358), which is listed on the main board of the Stock Exchange 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 51, was 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 a securities 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 37, 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 is a director of Qualcomm Ventures. Previously, she 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

SENIOR MANAGEMENT

Mr. Lie Chi Wing, Aston, aged 45, 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 (stock code: 3963), a company listed on the main board of the Stock Exchange. He joined the Group in 2010.

Mr. Liu Yong, aged 53, is the general manager of the Group. Mr. Liu was graduated from the Southeast University with a bachelor's degree in Detection Technology and Instrument and obtained a master's degree in Business Administration from Fudan University in 2014. Mr. Liu has been a senior water supply and drainage engineer since 2004 and he acquired the PRC Certified Asset Appraiser Certificate from the China Assets Appraisal Association in 1997. 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 2023, 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 9 September 2022 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.

OUR CULTURE

The Group is one of the leading enterprises in the city water supply, pipeline direct drinking water supply and environmental protection industry in Mainland China.

Corporate Governance Report

The Group's core value of "Water-oriented, Kindness to Society" is derived from the Chinese idiom "supreme kindness is like water", which in turn is derived from the ancient saying from Tao Te Ching written by Laozi, a famous ancient Chinese thinker and philosopher: "The supreme goodness is like water, which benefits myriad of things without competing." This saying teaches that water embodies the virtues of fairness, courage, resilience and purity. The Group integrates the philosophy and spirit of water into its corporate management and corporate culture, protects people's livelihood and contributes to social and economic development by providing safe and quality drinking water and direct drinking water, treating wastewater and managing the water environment, so as to achieve good water management in pursuit of perfection.

The Group is guided by this core value towards the relationships with employees, customers, shareholders, governments and other stakeholders, and uses sustainability as our philosophy. The Group strives to make a positive impact on society's key stakeholders and promotes a diverse and inclusive environment where everyone can thrive, belong and make a meaningful impact at work.

The Group has been staying true to its roots and working hard for progress to uphold its business philosophy of "Water-oriented, Kindness to Society", implements and continues the core strategies of water supply integration in urban and rural areas and water supply and drainage integration through steadfast determination, strive for the building up of the "China Water, Nourishing Thousands of Families with Love" brand, take concrete actions in responding to our nation's call and fulfil corporate environmental and social responsibilities.

To meet the expectation of high standard and healthy drinking water from the people, it also stepped up its efforts to develop pipeline direct drinking water to establish a twin-driver business portfolio of "water supply + direct drinking water", by which China Water will facilitate the improvement of the ecological environment and practice the cooperative development of society. The convenience, affordability and environmental friendliness of pipeline direct drinking water are in line with the concept of green and low-carbon development.

With the inclusion of the "Dual-carbon" target in the 14th Five-Year Plan and the outline of the 2035 Vision, China's green development begins to pick up steam. The Group has aligned itself with the national policy and kept up with the trend. By way of thorough research, planning, refinement and conclusion, the Group has formulated its Outline of the Implementation Plan for "Carbon Peaking and Carbon Neutrality". It lays out the path for achieving "zero-emission" and accelerating the transformation to a green and sustainable development approach, which can fulfil our corporate responsibility by contributing to the fight against climate change.

The Group's Board of Directors set the tone and develop the strategies for our Culture which is reviewed, aligned and endorsed by the Board of Directors or its Board Committee/s on a regular basis. The leadership team role model and cascade the company's culture to all levels via various internal communication platforms and systems.

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 2023 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

Corporate Governance Report

BOARD AND BOARD COMMITTEES

As at 31 March 2023, the Board consisted of twelve Directors: comprising five executive Directors, namely Mr. Duan Chuan Liang (Chairman), Ms. Ding Bin, Ms. Liu Yu Jie (subsequently re-designated to non-executive director with effect from 12 April 2023), Mr. Li Zhong and Mr. Duan Jerry Linnan; three non-executive Directors, Mr. Zhao Hai Hu, Mr. Makoto Inoue and Ms. Wang Xiaoqin; and four independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping and Ms. Zhou Nan. Two of the independent non-executive Directors, namely Mr. Chau Kam Wing and Mr. Siu Chi Ming, 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 and environmental, social and governance ("ESG") matters. 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, the implementation of ESG strategies 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.

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.

Corporate Governance Report

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

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;
- ensuring the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions; and
- oversight of the Company's ESG matters.

The Audit Committee had reviewed, evaluated and reported to the Board on ESG related risks and opportunities, developed corresponding objectives and monitored the progress towards the objectives, which include but not limited to environmental risks such as climate change, water resources, pollutant discharge, as well as social risks such as employment, supply chain and corruption.

The Audit Committee is provided with sufficient resources to discharge its responsibilities. For the year ended 31 March 2023, the Audit Committee held two meetings which included the review of the final results for the year ended 31 March 2022, the interim accounts for the six months ended 30 September 2022, the risk management and internal control system and ESG matters of the Company.

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

Corporate Governance Report

Remuneration Committee is responsible for making recommendations to the Board on the remuneration packages of Directors and senior management and reviewing and/or approving matters relating to share schemes, 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 2023, two meetings were held by the Remuneration Committee which reviewed the remuneration policy and 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 14 to the consolidated financial statements. During the year ended 31 March 2023, no equity-based remuneration with performance-related elements was paid to independent non-executive Directors. The remuneration of the members of senior management by band for the year ended 31 March 2023 is set out below:

	Number of Individuals
HK\$3,500,001 – HK\$4,000,000	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 2023, the Nomination Committee held one meeting 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 shall review the implementation and effectiveness of the board diversity policy on an annual basis to ensure its continuous effectiveness. The Nomination Committee will also assess the merits and contribution brought by the Directors to the Board against the objective criteria, with due regard for the benefits of diversity on the Board that would complement the Company's corporate strategy.

The Board has targeted to maintain at least one female representation in the Board from time to time. During the year ended 31 March 2023, there are five female out of twelve Board members and the target is achieved. The Board will take gender diversity into account in its process of director appointment and will continue to review the target as appropriate.

The Board overall is satisfied with the implementation and effectiveness of the board diversity policy for the year ended 31 March 2023. The Company also 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 2023 are set out in the following table.

	Meetings attended/(held)				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General meeting
<i>Executive Directors</i>					
Mr. Duan Chuan Liang (Chairman)	4/(4)	N/A	N/A	1/(1)	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	1/(1)
Mr. Duan Jerry Linnan	4/(4)	N/A	N/A	N/A	0/(1)
<i>Non-executive Directors</i>					
Mr. Zhao Hai Hu	4/(4)	N/A	N/A	N/A	0/(1)
Mr. Makoto Inoue	0/(4)	N/A	N/A	N/A	0/(1)
Ms. Wang Xiaojin	4/(4)	N/A	N/A	N/A	0/(1)
<i>Independent Non-executive Directors</i>					
Mr. Chau Kam Wing	4/(4)	2/(2)	2/(2)	1/(1)	1/(1)
Mr. Siu Chi Ming	4/(4)	2/(2)	2/(2)	1/(1)	1/(1)
Ms. Ho Ping	4/(4)	2/(2)	2/(2)	1/(1)	0/(1)
Ms. Zhou Nan	4/(4)	2/(2)	2/(2)	N/A	0/(1)
Mr. Chan Wai Cheung Admiral (Note)	3/(3)	2/(2)	2/(2)	N/A	0/(1)

Note:

Mr. Chan Wai Cheung Admiral resigned as independent non-executive director on 1 December 2022. His attendance was presented by reference to the number of relevant meetings held during his tenure.

Corporate Governance Report

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, to ensure that independent views and opinions are available to the Board. The Board has reviewed the implementation and effectiveness of the mechanism on an annual basis and the Board believes sufficient independent views and input are available to the Board. 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 2023, 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 2023.

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 2023, 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 2023.

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 judgements 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 in the Independent Auditor's Report on pages 42 to 49 of this annual report.

Corporate Governance 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;
- ensures the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions; and
- oversees the Company's ESG matters.

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;

Corporate Governance Report

- 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.

ANTI-CORRUPTION AND WHISTLEBLOWING SYSTEM

The Group has incorporated anti-corruption and anti-bribery policies in its standard of business conduct, and anti-corruption training are provided to all staff to promote integrity and enhance awareness about malpractice. Employees and other stakeholders can report suspected misconduct and violations of law and standards to the Group's Internal Audit Department by hotline or email, or to the Audit Committee by e-mail on anonymous basis. During the year, there is no incident involving serious fraud or misconduct have been received from employees nor external parties. The Audit Committee will continuously review and monitor the implementation and effectiveness of the whistleblowing system.

WORKFORCE DIVERSITY

We always believe that diversity is vital to the Group's sustainable development. We insist on equality in the workplace and strive to build a working atmosphere that fosters mutual respect, inclusion, and mutual helpfulness to promote our employees' happiness and satisfaction. To protect employees' basic human rights and enhance development diversity, we prohibit any type of discrimination or screening in recruitment and promotion based on gender, ethnic origin, religion, social status, or other considerations. Currently, the male to female ratio in the workforce of the Group including senior management is approximately 1.4:1 and the Board considers that the Group has maintained a healthy and reasonable gender diversity in its workforce.

Corporate Governance Report

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.

AUDITOR'S REMUNERATION

The remuneration payable by the Company to its auditor, PricewaterhouseCoopers ("PwC"), for the year ended 31 March 2023 amounted to HK\$9,280,000 (2022: HK\$8,780,000). HK\$1,400,000 (2022: HK\$2,800,000) was paid for other non-audit services provided by PwC to the Company and its subsidiaries during the year ended 31 March 2023.

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.

The Board had reviewed the shareholders' communication policy and considered that the policy has been properly implemented and was effective. During the year ended 31 March 2023, there had not been any changes in the Company's constitutional documents.

Corporate Governance Report

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 2023.

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 46 to the consolidated financial statements.

Business review and prospects of the Group are set out on pages 10 to 12.

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 166 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2023 and its financial position at that date are set out in the financial statements on pages 50 to 162. The Directors recommended a final dividend of HK18 cents (2022: HK18 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, 8 September 2023 and will be payable on or about Friday, 17 November 2023 to the shareholders whose names appear on the register of members on Friday, 22 September 2023.

CLOSURE OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 5 September 2023 to Friday, 8 September 2023 (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, 8 September 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, for registration not later than 4:30 p.m. on Monday, 4 September 2023.

For Entitlement to Proposed Final Dividend

The register of members will be closed from Thursday, 21 September 2023 to Friday, 22 September 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 20 September 2023. 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, 17 November 2023.

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 or other creditor 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.

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.

Directors' Report

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.

The Group also published the "Green Operation Proposal" to introduce the green operation concepts of "economical production", "clean production" and "ethical production" and relevant guidelines, under which the Group supervised its subsidiaries to carry out energy saving and emission reduction practices, raised the awareness of all employees and practiced green and sustainable development with practical actions.

With the inclusion of the "Dual-carbon" target in the 14th Five-Year Plan and the outline of the 2035 Vision, China's green development begins to pick up steam. The Group has aligned itself with the national policy and kept up with the trend. By way of thorough research, planning, refinement and conclusion, the Group has formulated its Outline of the Implementation Plan for "Carbon Peaking and Carbon Neutrality". It lays out the path for achieving "zero-emission" and accelerating the transformation to a green and sustainable development approach, which can fulfil our corporate responsibility by contributing to the fight against climate change.

To keep stakeholders abreast of the Group's sustainable development performance in respect of its important relevant areas, a separate environmental, social and governance (ESG) report is published on an annual basis. The Company has followed the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules when preparing its ESG Report. The Company's ESG Report covering the period from 1 April 2022 to 31 March 2023 is available on the websites of both the Company (www.chinawatergroup.com) and the Stock Exchange (www.hkexnews.hk).

Directors' Report

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 15 and 17 to the consolidated financial statements respectively. Further details of the Group's investment properties are set out on page 163.

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 38 and 39 to the consolidated financial statements, respectively.

BORROWINGS

Details of the Group's borrowings as at 31 March 2023 are set out in note 34 to the consolidated financial statements.

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 2023, the Company purchased an aggregate principal amount of US\$12,500,000 of the US\$350,000,000 4.85% senior notes due May 2026 (listed on the Singapore Exchange Securities Trading Limited) by private arrangement at an aggregate consideration of approximately US\$10,260,000.

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.



Directors' Report

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 45 and 40 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 45 to the consolidated financial statements. The Company's reserves available for distribution to members at 31 March 2023 amounted to HK\$1,584,823,000 (2022: HK\$1,760,337,000) which comprised contributed surplus of HK\$32,373,000 (2022: HK\$32,373,000) and retained earnings of HK\$1,552,450,000 (2022: HK\$1,727,964,000).

MAJOR CUSTOMERS AND SUPPLIERS

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHERS

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
- major 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 (subsequently re-designated to non-executive director with effect from 12 April 2023)

Mr. Li Zhong

Mr. Duan Jerry Linnan

Non-executive Directors

Mr. Zhao Hai Hu

Mr. Makoto Inoue

Ms. Wang Xiaoqin

Independent Non-executive Directors

Mr. Chau Kam Wing

Mr. Siu Chi Ming

Ms. Ho Ping

Ms. Zhou Nan

Mr. Chan Wai Cheung Admiral (resigned on 1 December 2022)

Directors' Report

In accordance with the Company's Bye-laws, Mr. Duan Jerry Linnan, Mr. Makoto Inoue, Ms. Ho Ping and Ms. Zhou Nan 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 16 to 19.

DIRECTORS' SERVICE CONTRACTS

As at 31 March 2023, 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 2023, 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	471,036,301	–	28.86%
Ms. Ding Bin	Personal	5,700,000	–	0.35%
Ms. Liu Yu Jie	Personal	12,000,000	–	0.74%
Mr. Li Zhong (Notes (iii)&(iv))	Personal	37,813,457	–	2.32%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.26%
Ms. Wang Xiaoqin	Personal	8,950,000	–	0.55%
Ms. Ho Ping	Personal	978,000	–	0.06%

Directors' Report

Shares of Kangda International Environmental Company Limited ("Kangda International"), an associated corporation of the Company

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	–	0.47%
Ms. Liu Yu Jie	Personal	10,000,000	–	0.47%
Mr. Duan Jerry Linnan	Personal	10,000,000	–	0.47%
Mr. Chau Kam Wing	Personal	2,000,000	–	0.09%

Notes:

- (i) These 471,036,301 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 252,992,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) Mr. Duan Chuan Liang and AFRL are also interested in USD8,265,000 senior notes of the Company due 2026.
- (iii) These 37,813,457 shares consist of 8,606,000 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.

SHARE OPTION SCHEME

The Company adopted the share option scheme on 9 September 2022. Details of the Company's share option scheme are set out in note 39 to the consolidated financial statements. As at 31 March 2023, none of the Directors of the Company had been granted options to subscribe for shares in the capital of the Company under the share option scheme.

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

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SECURITIES

Save as disclosed in the sections headed "Directors' And Chief Executives' Interests In Securities" and "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

Directors' Report

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. Details of the emoluments of the Directors and five highest paid individuals are set out in notes 13 and 14 to the consolidated financial statements.

The Company adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme is set out in note 39 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2023, 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	471,036,301	-	-	28.86%	-	-
Asset Full Resources Limited (note)	Beneficial	218,044,301	-	-	13.36%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	17.84%	-	-

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 2023, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

Directors' Report

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 2023.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions:

Continuing connected transactions

On 28 February 2020, the Company and 江西銀麗直飲水設備有限公司 (Jiangxi Yinli Direct Drinking Equipment Co. Ltd.) ("Jiangxi Yinli") entered into the framework agreement pursuant to which Jiangxi Yinli has agreed to supply the pipeline direct drinking system related equipment and services ("Products") to the Group during the term of the framework agreement. Jiangxi Yinli is a non-wholly owned subsidiary of the Company and is principally engaged in research and development, production and sale of pipeline direct drinking equipment, water purification technical consultant services, production, sale and services of water purification equipment, water treatment engineering installation and technical services; research and development and production of water treatment equipment automation control system; development and promotion of intelligent water and Internet of Things system software. ORIX China Investment Corporation ("ORIX CHINA") holds 20% of the equity interest in Jiangxi Yinli. ORIX CHINA is a subsidiary of ORIX Corporation which is a substantial shareholder of the Company. Jiangxi Yinli therefore is a connected subsidiary of the Company.

The expected maximum annual transaction amounts under the framework agreement for the following periods shall be as follows:

Period	Annual cap
1 April 2020 to 31 March 2021	RMB38,000,000
1 April 2021 to 31 March 2022	RMB56,000,000
1 April 2022 to 31 March 2023	RMB95,000,000

During the year, the Group had continuing connected transactions with Jiangxi Yinli for the purchase of Products amounting to approximately HK\$37,180,000 (approximately RMB31,975,000) (2022: HK\$28,541,000 (approximately RMB23,118,000)) which were conducted in the ordinary and usual course of the Group's business.

Directors' Report

The independent non-executive Directors of the Company have reviewed the continuing connected transactions with Jiangxi Yinli as set out above and have confirmed that these continuing connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Details of which had been disclosed in the Company's announcement dated 28 February 2020 and 26 March 2020.

Save as disclosed above, 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 43 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 2023.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

There was no significant event took place subsequent to 31 March 2023.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

Directors' Report

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 20 to 30.

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, 27 June 2023

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") which are set out on pages 50 to 162, comprise:

- the consolidated statement of financial position as at 31 March 2023;
- 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 significant accounting policies and other explanatory information.

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 2023, 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 judgement, 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 assessments of other intangible assets and goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>1 Accounting for the service concession arrangements</p> <p><i>Refer to notes 2.15, 5, 21 and 28 to the consolidated financial statements</i></p> <p>(a) Applicability of HK(IFRIC) Interpretation 12 – Service Concession Arrangements (“HK(IFRIC) Int.12”)</p> <p>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.</p> <p>In preparing the consolidated financial statements for the year ended 31 March 2023, management has reassessed these service concession agreements as to whether the conditions (i.e. 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 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.) under HK(IFRIC) Int.12 were fulfilled such that the service concession arrangements should be accounted for in accordance with HK(IFRIC) Int.12.</p>	<p>Our procedures in relation to management’s accounting for the service concession arrangements included:</p> <ul style="list-style-type: none"> • Evaluating whether the service concession arrangements of previously acquired or established 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 established entities fulfil the conditions under HK(IFRIC) Int.12 by: <ul style="list-style-type: none"> • Reading the concession agreements and other relevant documents, including legal opinions as applicable, 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 profit margin at the date of agreement applicable to similar construction services rendered in the PRC.

The market rate of gross profit 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, which is subject to high degree of estimation uncertainty. The inherent risk in relation to the recognition of revenue relating to construction or upgrade services in connection with water supply infrastructure is considered high due to uncertainty of significant assumptions used.

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:

- Understanding, evaluating and testing the internal controls over the generation of cost data of the construction or upgrade projects and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors;
- Comparing the actual costs of completed projects to management's prior estimations to assess the accuracy of management's historical cost estimation and reliability and appropriateness of the cost estimation methodology;
- Comparing the estimated total construction costs and cost incurred to date to the latest budget approved by management;
- Checking the construction costs incurred during the year by tracing to supporting documents, such as purchase agreements, materials consumption notes and labour cost records on a sample basis;
- Challenging 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;
- Testing the mathematical accuracy of the calculation of percentage of completion and revenue and costs recognised during the year; 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 2.8, 2.9, 20 and 21 to the consolidated financial statements

As at 31 March 2023, the carrying amounts of other intangible assets and goodwill amounted to HK\$29,123.0 million and HK\$1,419.4 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 or 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 2023, 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 compared 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, which are subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment of other intangible assets and goodwill is considered high due to uncertainty of significant assumptions used.

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 2023.

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 understanding 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:
 - Understanding the internal controls over the impairment assessment of other intangible assets and goodwill and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors;
 - Comparing the forecast against current year business result to assess if there is any inconsistency in the revenue and costs structure;
 - Challenging 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

- Challenging 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.

Independent Auditor's Report

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 HKSA's 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.

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.

Independent Auditor's Report

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, actions taken to eliminate threats or safeguards applied.

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, 27 June 2023



Consolidated Income Statement

For the year ended 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	6	14,194,953	12,949,828
Cost of sales		(8,848,656)	(7,987,628)
Gross profit		5,346,297	4,962,200
Other income, net	6	427,090	358,564
Selling and distribution costs		(282,940)	(290,403)
Administrative expenses		(955,695)	(881,058)
Expected credit loss on trade receivables	27	(45,024)	–
Operating profit	8	4,489,728	4,149,303
Finance costs	9	(633,225)	(468,076)
Share of results of associates	18	162,792	234,995
Profit before income tax		4,019,295	3,916,222
Income tax expense	10	(930,950)	(939,093)
Profit for the year		3,088,345	2,977,129
Profit for the year attributable to:			
Owners of the Company		1,856,786	1,893,573
Non-controlling interests		1,231,559	1,083,556
		3,088,345	2,977,129
Earnings per share for profit attributable to owners of the Company during the year	11	HK\$	HK\$
Basic		1.14	1.17
Diluted		1.14	1.16

The notes on pages 59 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2023

	2023 HK\$'000	2022 HK\$'000
Profit for the year	3,088,345	2,977,129
Other comprehensive (loss)/income		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	(1,683,743)	1,255,382
– Recycling of currency translation differences upon disposal or deregistration of subsidiaries, net	193	344
<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	(57,024)	4,445
– Share of other comprehensive income/(loss) of an associate	32,348	(21,600)
Other comprehensive (loss)/income for the year, net of tax	(1,708,226)	1,238,571
Total comprehensive income for the year	1,380,119	4,215,700
Total comprehensive income attributable to:		
Owners of the Company	575,701	2,830,857
Non-controlling interests	804,418	1,384,843
	1,380,119	4,215,700

The notes on pages 59 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	15	3,338,119	3,372,755
Right-of-use assets	16	1,302,999	1,366,709
Investment properties	17	1,362,198	1,398,863
Investment in associates	18	2,402,532	2,743,534
Financial assets at fair value through other comprehensive income	19	461,445	396,688
Goodwill	20	1,419,442	1,476,185
Other intangible assets	21	29,122,981	26,503,555
Prepayments, deposits and other receivables	22	721,660	806,617
Contract assets	23	1,358,496	1,305,719
Receivables under service concession arrangements	28	1,788,146	1,194,902
		43,278,018	40,565,527
Current assets			
Properties under development	24	1,235,634	2,066,096
Properties held for sale	25	1,133,738	675,926
Inventories	26	650,353	831,658
Contract assets	23	1,481,535	879,691
Receivables under service concession arrangements	28	122,833	80,180
Trade and bills receivables	27	1,954,038	1,561,650
Financial assets at fair value through profit or loss	29	653,320	1,149,409
Amounts due from non-controlling equity holders of subsidiaries	35	248,585	203,054
Amounts due from associates	18	271,744	137,699
Prepayments, deposits and other receivables	22	2,635,409	2,384,381
Pledged deposits	30	514,260	506,350
Cash and cash equivalents	30	6,984,821	6,022,821
		17,886,270	16,498,915
Current liabilities			
Lease liabilities		37,978	36,805
Contract liabilities	31	1,401,864	1,231,997
Trade and bills payables	32	5,403,857	4,673,899
Accrued liabilities, deposits received and other payables	33	3,131,649	2,675,905
Amounts due to associates	18	34,843	50,190
Borrowings	34	8,020,540	7,692,095
Amounts due to non-controlling equity holders of subsidiaries	35	120,523	290,230
Provision for tax		3,027,151	2,597,264
		21,178,405	19,248,385
Net current liabilities		(3,292,135)	(2,749,470)
Total assets less current liabilities		39,985,883	37,816,057

Consolidated Statement of Financial Position

As at 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current liabilities			
Borrowings	34	15,607,292	14,171,416
Lease liabilities		343,121	338,095
Contract liabilities	31	317,692	328,489
Amounts due to non-controlling equity holders of subsidiaries	35	1,078,213	958,665
Deferred government grants	36	197,354	222,246
Deferred tax liabilities	37	1,270,077	1,314,402
		<u>18,813,749</u>	<u>17,333,313</u>
Net assets		<u>21,172,134</u>	<u>20,482,744</u>
Equity			
Equity attributable to owners of the Company			
Share capital	38	16,323	16,323
Reserves	40	12,976,831	12,952,889
		12,993,154	12,969,212
Non-controlling interests		<u>8,178,980</u>	<u>7,513,532</u>
Total equity		<u>21,172,134</u>	<u>20,482,744</u>

The consolidated financial statements on pages 50 to 162 were approved and authorised for issue by the board of directors on 27 June 2023 and are signed on its behalf by:

Duan Chuan Liang
Director

Ding Bin
Director

The notes on pages 59 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2023

	Equity attributable to owners of the Company														
	Share capital HK\$'000	Proposed final dividend HK\$'000	Share premium HK\$'000 (note 40)	Convertible bonds equity reserve HK\$'000 (note 40)	Capital redemption reserve HK\$'000 (note 40)	Contributed surplus HK\$'000 (note 40)	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000 (note 40)	Other reserves HK\$'000 (note 40)	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000 (note 40)	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2021	15,849	253,584	-	282,190	3,304	32,373	122,834	96,808	(231,083)	55,259	851,030	9,030,395	10,512,543	6,437,485	16,950,028
Shares issued in respect of conversion of convertible bonds (note 38)	474	-	281,716	(282,190)	-	-	-	-	-	-	-	-	-	-	-
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	159,233	159,233
Transactions with non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	148,155	-	-	-	148,155	(188,345)	(40,190)
Capital injection by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	40,097	40,097
Final dividend 2021 (note 12)	-	(253,584)	-	-	-	-	-	-	-	-	-	(7,587)	(261,171)	-	(261,171)
Interim dividend 2022 (note 12)	-	-	-	-	-	-	-	-	-	-	-	(261,172)	(261,172)	-	(261,172)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(319,781)	(319,781)
Transactions with owners	474	(253,584)	281,716	(282,190)	-	-	-	-	148,155	-	-	(268,759)	(374,188)	(308,796)	(682,984)
Proposed final dividend 2022 (note 12)	-	293,818	-	-	-	-	-	-	-	-	-	(293,818)	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	-	272,488	(272,488)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	1,893,573	1,893,573	1,083,556	2,977,129
Other comprehensive income/(loss)															
- Change in fair value of financial assets at fair value through other comprehensive income (note 19(ii))	-	-	-	-	-	-	-	-	-	4,445	-	-	4,445	-	4,445
- Currency translation	-	-	-	-	-	-	954,095	-	-	-	-	-	954,095	301,287	1,255,382
- Share of other comprehensive income/(loss) of an associate	-	-	-	-	-	-	-	-	5,279	(26,879)	-	-	(21,600)	-	(21,600)
- Recycling of currency translation differences upon deregistration of a subsidiary	-	-	-	-	-	-	344	-	-	-	-	-	344	-	344
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	954,439	-	5,279	(22,434)	-	1,893,573	2,830,857	1,384,843	4,215,700
Balance at 31 March 2022	16,323	293,818	281,716	-	3,304	32,373	1,077,273	96,808	(77,649)	32,825	1,123,518	10,088,903	12,969,212	7,513,532	20,482,744

Consolidated Statement of Changes in Equity

For the year ended 31 March 2023

	Equity attributable to owners of the Company												Total equity HK\$'000	
	Share capital HK\$'000	Proposed final dividend HK\$'000	Share premium HK\$'000 (note 40)	Capital redemption reserve HK\$'000 (note 40)	Contributed surplus HK\$'000 (note 40)	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000 (note 40)	Other reserves HK\$'000 (note 40)	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000 (note 40)	Retained earnings HK\$'000	Total HK\$'000		Non-controlling interests HK\$'000
Balance at 1 April 2022	16,323	293,818	281,716	3,304	32,373	1,077,273	96,808	(77,649)	32,825	1,123,518	10,088,903	12,969,212	7,513,532	20,482,744
Transactions with non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	3,231	-	-	3,231	(9,583)	(6,352)
Disposal or deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(2,422)	(2,422)
Capital injection by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	147,927	147,927
Final dividend 2022 (note 12)	-	(293,818)	-	-	-	-	-	-	-	-	-	(293,818)	-	(293,818)
Interim dividend 2023 (note 12)	-	-	-	-	-	-	-	-	-	-	(261,172)	(261,172)	-	(261,172)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(274,892)	(274,892)
Transactions with owners	-	(293,818)	-	-	-	-	-	3,231	-	-	(261,172)	(551,759)	(138,970)	(690,729)
Proposed final dividend 2023 (note 12)	-	293,818	-	-	-	-	-	-	-	-	(293,818)	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	207,541	(207,541)	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-	1,856,786	1,856,786	1,231,559	3,088,345
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 19(ii))	-	-	-	-	-	-	-	-	(57,024)	-	-	(57,024)	-	(57,024)
- Currency translation	-	-	-	-	-	(1,256,602)	-	-	-	-	-	(1,256,602)	(427,141)	(1,683,743)
- Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	32,348	-	-	32,348	-	32,348
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	193	-	-	-	-	-	193	-	193
Total comprehensive (loss)/income for the year	-	-	-	-	-	(1,256,409)	-	-	(24,676)	-	1,856,786	575,701	804,418	1,380,119
Balance at 31 March 2023	16,323	293,818	281,716	3,304	32,373	(179,136)	96,808	(74,418)	8,149	1,331,059	11,183,158	12,993,154	8,178,980	21,172,134

The notes on pages 59 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Cash flows from operating activities			
Profit before income tax		4,019,295	3,916,222
Adjustments for:			
Finance costs	9	633,225	468,076
Share of results of associates	18	(162,792)	(234,995)
Interest income	6	(164,031)	(123,373)
Dividend income from financial assets	6	(9,109)	(11,165)
Amortisation of deferred government grants		(12,108)	(10,470)
Loss/(gain) on disposal of property, plant and equipment, net	6	276	(190)
Gain on disposal of right-of-use assets	6	–	(1,751)
(Gain)/loss on disposal of other intangible assets, net	6	(13,944)	475
Loss on disposal of investment properties		–	547
(Gain)/loss on deregistration or disposal of subsidiaries, net	6	(1,278)	6,127
Loss on disposal or deregistration of financial assets at fair value through other comprehensive income		4,116	23
Depreciation of property, plant and equipment	8	154,990	148,304
Depreciation of right-of-use assets	8	70,342	73,006
Amortisation of other intangible assets	8	797,251	659,885
Property, plant and equipment written off	8	1,193	578
Trade receivables written off	8	191	1,730
Expected credit loss on trade receivables	8	45,024	–
Excess over the cost of business combination recognised in profit or loss		–	(4,953)
Construction margin for construction and upgrade services in relation to water supply and sewage treatment infrastructure		(485,060)	(472,205)
Operating profit before working capital changes		4,877,581	4,415,871
Increase in properties under development		(224,852)	(563,190)
Decrease in properties held for sale		439,353	371,555
Decrease in inventories		132,648	154,600
Increase in contract assets		(1,166,072)	(557,286)
Increase in receivables under service concession arrangements		(325,638)	(65,921)
Increase in trade and bills receivables		(528,438)	(403,159)
Increase in prepayments, deposits and other receivables		(231,222)	(243,500)
Increase in contract liabilities		249,796	79,065
Increase in trade and bills payables		1,001,696	711,536
Increase in accrued liabilities, deposits received and other payables		343,775	399,158
Cash generated from operations		4,568,627	4,298,729
Interest paid for bank and other loans		(614,877)	(448,824)
Interest paid on lease liabilities		(18,348)	(19,252)
Income taxes paid		(468,936)	(168,371)
Net cash generated from operating activities		3,466,466	3,662,282

Consolidated Statement of Cash Flows

For the year ended 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Cash flows from investing activities			
Interest received		164,031	123,373
Dividend received from financial assets		9,109	11,165
Purchase of property, plant and equipment	15	(321,410)	(256,257)
Proceeds from disposal of property, plant and equipment		1,326	2,454
Purchase of right-of-use assets – land lease payments		(16,981)	(29,657)
Proceeds from disposal of right-of-use assets		–	2,771
Additions of investment properties	17	(55,128)	(164,484)
Proceeds from disposal of investment properties		10,465	19,947
Purchase of financial assets at fair value through other comprehensive income		(104,342)	–
Proceeds from disposal of financial assets at fair value through other comprehensive income		13,954	–
Purchase of financial assets at fair value through profit or loss		–	(71,481)
Proceeds from disposal of financial assets at fair value through profit or loss		384,768	–
Additions of water supply, sewage treatment concession and other operating rights		(4,291,946)	(3,764,452)
Proceeds from disposal of other intangible assets		25,426	187
Acquisition of subsidiaries (net of cash and cash equivalent acquired)		–	(89,920)
Disposal of subsidiaries (net of cash and cash equivalent disposed)		490	3,262
(Increase)/decrease in amounts due from non-controlling equity holders of subsidiaries		(63,033)	10,728
Investments in associates		(175)	(2,469)
Proceeds from disposal of associates		357,925	247
Dividends received from associates		42,039	20,592
(Increase)/decrease in amounts due from associates		(141,913)	91,541
Increase in other receivables		(96,149)	(143,145)
Deferred government grants received		–	2,725
(Increase)/decrease in pledged deposits		(30,797)	27,507
Net cash used in investing activities		(4,112,341)	(4,205,366)

Consolidated Statement of Cash Flows

For the year ended 31 March 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Cash flows from financing activities			
Acquisition of additional interests in subsidiaries		(8,394)	(117,065)
Proceeds from partial disposal of subsidiaries		1,104	141
Capital injection by non-controlling equity holders of subsidiaries		146,040	40,097
Advance from amounts due to non-controlling equity holders of subsidiaries		29,427	598,590
Dividend paid to non-controlling equity holders of subsidiaries		(274,892)	(319,781)
Repayment of amounts due to associates		(9,840)	(18,151)
Repayment of lease liabilities		(37,591)	(37,200)
Drawdown of bank loans		10,771,387	5,917,250
Repayment of bank loans		(9,243,259)	(3,007,885)
Drawdown of other loans		1,099,144	2,615,067
Repayment of other loans		(312,643)	(2,564,312)
Dividend paid		(293,818)	(522,343)
Net cash generated from financing activities		1,866,665	2,584,408
Net increase in cash and cash equivalents		1,220,790	2,041,324
Cash and cash equivalents at beginning of year		6,022,821	3,901,218
Effect of foreign exchange rates, net		(258,790)	80,279
Cash and cash equivalents at end of year	30	6,984,821	6,022,821

The notes on pages 59 to 162 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

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 46 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 27 June 2023.

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.

As at 31 March 2023, the Group’s current liabilities exceeded its current assets by approximately HK\$3,292,135,000. The directors of the Company have reviewed the Group’s cash flow projection, which covers a period of not less than twelve months from 31 March 2023. The directors of the Company are of the view that the Group will be able to meet its liabilities as they fall due in the next twelve months, taking into account of the forecast cash flows including the cashflow generated from operations, internal financial resources, available loan facilities and new loan facilities currently under negotiation. The Group had unused loan facilities of approximately HK\$7,579.4 million as at 31 March 2023. The directors of the Company believe that the Group will be able to renew or extend its existing loan facilities to drawdown from the unused loan facilities when needed. The Group will also continue to seek new debt financing and bank borrowings at cost acceptable to the Group. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policies and disclosures

(a) *Amended standards adopted by the Group*

During the year, the Group adopted the following amended standards which are relevant to the Group's operation and are mandatory for the year ended 31 March 2023.

HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-Scope Amendments
Amendments to Annual Improvements Projects	Annual Improvements to HKFRSs 2018-2020

The above amended standards 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 2022 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 2023 or later periods, but the Group has not early adopted them.

		Effective for accounting periods beginning on or after
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-Current	1 January 2024
HKAS 1 (Amendments)	Non-Current Liabilities with Covenants	1 January 2024
HK Int 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand	1 January 2024
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 2023

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(b) *Business combinations (Continued)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

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.

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" involves the provision of city water supply operations and construction, installation and maintenance services and other services;
- (ii) "Pipeline direct drinking water supply" involves the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services and other services;
- (iii) "Environmental protection" involves the provision of sewage treatment and drainage operations and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management;
- (iv) "Main contractor construction" involves the provision of municipal public construction services by the Group's subsidiary which possesses Grade 1 main contractor qualification; and
- (v) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Segment reporting (Continued)

In the second half of the year ended 31 March 2023, the Group (1) renamed “City water supply operations and construction” segment to “City water supply” segment; (2) began separately presenting the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services and other services under “Pipeline direct drinking water supply” segment; and (3) began separately presenting the provision of municipal public construction services by the Group’s subsidiary which possesses grade 1 main contractor qualification under “Main contractor construction” segment. These changes are consistent with the chief operating decision-maker’s view of the business. Prior year’s corresponding segment information that was presented for comparative purpose has been restated.

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 gain/loss on deregistration or 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 investment 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 2023

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(c) *Group companies (Continued)*

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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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.

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	Shorter of lease term or 50 years
Leasehold improvements	Shorter of lease term or 5 years
Plant and machinery	6 to 30 years
Furniture, equipment and motor vehicles	5 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 2.10).

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

2.7 Investment properties

Investment property, principally comprising 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. 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Investment properties (Continued)

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, HKAS 16 for owned property and HKFRS 16 for property held by a lessee as right-of-use assets up to the date of change in use should be applied. Any difference resulting between the carrying amount of the property in accordance with HKAS 16 or HKFRS 16 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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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.

2.9 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 55 years. Both period and method of amortisation are reviewed annually.

Intangible assets with finite useful lives are tested for impairment as described in note 2.10 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets and investment 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.

2.11 Financial investments and other financial assets

2.11.1 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.

2.11.2 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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial investments and other financial assets (Continued)

2.11.3 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, net using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in consolidated income statement and presented in other income, net, 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 income, net. Interest income from these financial investments and other financial assets is included in other income, net 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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial investments and other financial assets (Continued)

2.11.3 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, net 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.

2.11.4 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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial investments and other financial assets (Continued)

2.11.5 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.

2.12 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.

2.13 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.

2.14 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 2.11.4 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 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 2.11 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 2.9 to the consolidated financial statements.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Service concession arrangements (Continued)

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 time by measuring the progress towards complete satisfaction of the service. Contract costs are recognised as expenses by measuring the progress towards complete satisfaction 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 input method to determine the appropriate amount to recognise in a given period. 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.

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 2.24 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 2.24 to the consolidated financial statements.

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 2.18 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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.

2.17 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.

2.18 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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leases

Leases are recognised as a right-of-use assets and a corresponding liabilities at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leases (Continued)

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.

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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 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.

2.21 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.

2.22 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.

2.23 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 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 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 water supply operations services 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;
- (ii) Revenue from 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 operations services 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;
- (iv) Water supply installation and maintenance income 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;
- (v) Revenue from sale of properties is recognised when or as the control of the asset is transferred to the customer. The revenue is recognised at a point in time when the customer obtains control of the completed property;

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

- (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; and
- (x) Handling income is recognised over time when services are rendered.

2.25 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is recognised in “other income, net” in the consolidated income statement where it is mainly earned from financial assets that are held for cash management purposes.

2.26 Dividend income

Dividends are received from financial assets at FVOCI. Dividends are recognised in “Other income, net” in the consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

2.27 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Employee benefits (Continued)

(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.

2.28 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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Current and deferred income tax (Continued)

(b) *Deferred income tax (Continued)*

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.

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 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

3.1 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, amounts due from non-controlling equity holders of subsidiaries, amounts 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.

For financial assets whose impairment losses are measured using expected credit loss ("ECL") model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognise their ECL, as follows:

- Stage 1: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage 1.
- Stage 2: If the credit risk has increased significantly since its initial recognition but not yet deemed to be credit-impaired, the financial instrument is included in stage 2.
- Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in stage 3.

The Group considers the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, lifetime or 12-month expected credit losses are provided respectively.

The Group considers the probability of default upon initial recognition of 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 risk of a default occurring on the assets as at year end with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

- actual or expected significant changes in the operating results of the counterparty; and
- significant changes in the expected performance and behavior of the counterparty, including changes in the payment status of the counterparty.

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 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.

To measure the expected credit losses, trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and aging. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and bills receivables for the same types of contracts. The Group has therefore concluded that the expected loss rate for trade and bills receivables a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over 12 months before 31 March 2023 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusting to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the relevant industry in which it sells its goods or services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

Impairment allowance policies for trade and bills receivables and contract assets (Continued)

Impairment losses on trade and bills receivables and contract assets are presented as separate line item in the consolidated income statement. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 March 2022, expected loss rate of trade and bills receivables and contract assets is assessed to be low. The amount of loss allowance provision for trade and bills receivables and contract assets was not material, as counterparties are expected to be capable of meeting their contractual cash flows obligation in the near term.

As at 31 March 2023, expected loss rate of trade and bills receivables was determined as follows:

	Current HK\$'000	1 to 90 days HK\$'000	91 to 180 days HK\$'000	Over 180 days HK\$'000	Total HK\$'000
Expected credit loss rate	0.1%	4.1%	6.5%	11.8%	
Trade and bill receivables (Gross carrying amount)	1,441,738	144,712	116,419	302,192	2,005,061
Loss allowance	1,895	5,891	7,597	35,640	51,023

Trade and bill receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment allowance policies for other financial assets at amortised cost

The other financial assets, which mainly comprise deposits and other receivables, amounts due from non-controlling equity holders of subsidiaries and amounts due from associates.

Expected loss rate of other financial assets at amortised cost is assessed to be low. As at 31 March 2023, the amount of loss allowance provision for other financial assets at amortised cost was not material, as counterparties are expected to be capable of meeting their contractual cash flows obligation in the near term.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.1 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\$161,288,000 (2022: HK\$153,343,000) 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 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.1 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\$65,332,000 (2022: HK\$114,941,000) 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\$46,145,000 (2022: HK\$39,669,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.1 Financial risk factors (Continued)

(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 2023					
Lease liabilities	–	14,737	42,686	478,660	536,083
Trade and bills payables	3,810,613	597,847	995,397	–	5,403,857
Accrued liabilities and other payables	1,944,496	749,685	339,984	–	3,034,165
Amounts due to associates	11,823	–	23,020	–	34,843
Borrowings	260,667	1,037,889	7,807,586	19,855,016	28,961,158
Amounts due to non-controlling equity holders of subsidiaries	98,029	18,942	3,552	1,090,873	1,211,396
	<u>6,125,628</u>	<u>2,419,100</u>	<u>9,212,225</u>	<u>21,424,549</u>	<u>39,181,502</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.1 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 2022					
Lease liabilities	–	14,048	41,179	472,902	528,129
Trade and bills payables	3,021,579	460,579	1,191,741	–	4,673,899
Accrued liabilities and other payables	1,208,690	823,501	544,808	–	2,576,999
Amounts due to associates	21,875	25,782	2,533	–	50,190
Borrowings	48,439	576,979	7,263,008	18,108,779	25,997,205
Amounts due to non-controlling equity holders of subsidiaries	135,022	45,938	109,270	967,186	1,257,416
	<u>4,435,605</u>	<u>1,946,827</u>	<u>9,152,539</u>	<u>19,548,867</u>	<u>35,083,838</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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.2 Fair value measurements

(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.

(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 2023, 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	88,156	–	373,289	461,445
Financial assets at fair value through profit or loss	–	–	653,320	653,320
	<u>88,156</u>	<u>–</u>	<u>1,026,609</u>	<u>1,114,765</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.2 Fair value measurements (Continued)

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

Fair value hierarchy (Continued)

At 31 March 2022, 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	4,444	–	392,244	396,688
Financial assets at fair value through profit or loss	–	–	1,149,409	1,149,409
	<u>4,444</u>	<u>–</u>	<u>1,541,653</u>	<u>1,546,097</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 year.

Information about Level 3 fair value measurement

Financial assets at FVOCI mainly comprise unlisted equity securities which were valued by the Group or APAC Appraisal and Consulting Limited, an independent firm of professional valuer, using market approach to determine the fair value.

Financial assets at FVPL comprise equity investments for unlisted exchangeable bonds and wealth management products and structured deposits issued by various licensed banks in the PRC. The unlisted exchangeable bonds were valued by APAC Appraisal and Consulting Limited, an independent firm of professional valuer, using option pricing model to determine the fair value. As for wealth management products and structured deposits issued by various licensed banks in the PRC, the Group used income approach of discounted cash flows to determine the fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.2 Fair value measurements (Continued)

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

Information about Level 3 fair value measurement (Continued)

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

Financial instruments	2023 HK\$'000	2022 HK\$'000	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted exchangeable bonds	182,390	240,890	Option pricing model	Volatility	40.1% (2022: 38.0%)	The higher of volatility, the lower of fair value
Unlisted equity securities	373,289	392,244	Market approach	Enterprise value to sales multiple	1.2 to 11.7 times (2022: 1.7 to 6.5 times)	The higher of sales multiple, the higher of fair value
Wealth management products and structured deposits issued by various licensed banks	470,930	908,519	Income approach	Expected return rate	1.6% to 5.0% (2022: 1.1% to 5.3%)	The higher of expected return rate, the higher of fair value

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

	2023 HK\$'000	2022 HK\$'000
Financial assets at fair value through other comprehensive income:		
At beginning of the financial year	392,244	369,101
Changes in fair value recognised in other comprehensive income	(3,488)	3,704
Acquisition of subsidiaries	–	1,234
Additions	25,594	–
Disposed/deregistration	(18,256)	(23)
Exchange realignment	(22,805)	18,228
At end of the financial year	373,289	392,244
Financial assets at fair value through profit or loss:		
At beginning of the financial year	1,149,409	1,035,098
Net (disposal)/purchase and changes in fair value of financial assets at fair value through profit or loss	(496,089)	114,311
At end of the financial year	653,320	1,149,409

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.3 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

	2023 HK\$'000	2022 HK\$'000
At amortised cost		
– Trade and bills receivables	1,954,038	1,561,650
– Contract assets	2,840,031	2,185,410
– Receivables under service concession agreements	1,910,979	1,275,082
– Other receivables	2,569,299	2,424,982
– Amounts due from associates	271,744	137,699
– Amounts due from non-controlling equity holders of subsidiaries	248,585	203,054
	<u>9,794,676</u>	<u>7,787,877</u>
– Cash and cash equivalents and pledged deposits	7,499,081	6,529,171
	<u>17,293,757</u>	<u>14,317,048</u>
At fair value		
– Financial assets at fair value through other comprehensive income	461,445	396,688
– Financial assets at fair value through profit or loss	653,320	1,149,409
	<u>18,408,522</u>	<u>15,863,145</u>

Financial liabilities

	2023 HK\$'000	2022 HK\$'000
At amortised cost		
– Lease liabilities	381,099	374,900
– Contract liabilities	1,719,556	1,560,486
– Trade and bills payables	5,403,857	4,673,899
– Accrued liabilities and other payables	3,034,165	2,576,999
– Amounts due to associates	34,843	50,190
– Borrowings	23,627,832	21,863,511
– Amounts due to non-controlling equity holders of subsidiaries	1,198,736	1,248,895
	<u>35,400,088</u>	<u>32,348,880</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

3 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

3.4 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.

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

	2023 HK\$'000	2022 HK\$'000
Capital		
Total equity	21,172,134	20,482,744
Overall financing		
Borrowings	23,627,832	21,863,511
Amounts due to associates	19,767	23,761
Amounts due to non-controlling equity holders of subsidiaries	132,675	124,617
	23,780,274	22,011,889
Capital-to-overall financing ratio	0.89 times	0.93 times

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are 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, 2.19 and 2.9 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 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 2.8 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 investment in associates

The Group assesses whether there are any indicators of impairment for all non-financial assets (other than goodwill) and investment 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 2023

4 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 17);
- financial assets at fair value through other comprehensive income (note 19); and
- financial assets at fair value through profit or loss (note 29).

There is significant estimation in relation to the valuation of the items above. Detailed information in relation to the fair value measurement of the financial assets at FVPL and financial assets at FVOCI is set out in note 3.2 to the consolidated financial statements. The fair value measurement of the investment properties is set out in note 17 to the consolidated financial statements.

(vi) Construction contracts

As stated in note 2.15 to the consolidated financial statements, revenue and profit recognition on an uncompleted project 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 2023

4 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 2.15 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 2.15 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

5 SERVICE CONCESSION ARRANGEMENTS

The Group entered into a number of service concession arrangements with certain government authorities in the PRC 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 or paying a specific amount to obtain the water supply and sewage treatment infrastructures depending on the type of arrangements; and (ii) 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").

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 2023, the Group has 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	Practical processing capacity per day (m ³)	Service concession period
Water supply	PRC	3,000 – 700,000	10 to 55 years
Sewage treatment	PRC	10,000 – 120,000	20 to 30 years

During the year, the Group recognised water supply construction service income of HK\$4,517,619,000 (2022: HK\$4,398,538,000), sewage treatment construction service income of HK\$872,310,000 (2022: HK\$630,636,000) and finance income of HK\$45,534,000 (2022: HK\$51,541,000) as revenue under the line item "revenue and other income" from service concession arrangements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

6 REVENUE AND OTHER INCOME

The Group's principal activities are disclosed in notes 1 and 46 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:

	2023 HK\$'000	2022 HK\$'000
Revenue:		
Point in time		
City water supply operations	3,353,844	3,361,094
Pipeline direct drinking water supply operations	170,061	107,884
Sales of goods	797,202	650,329
Sales of properties	515,992	494,521
Others	258,719	265,427
	<u>5,095,818</u>	<u>4,879,255</u>
Overtime		
City water supply installation and maintenance services	1,920,108	2,055,252
Pipeline direct drinking water supply installation and maintenance services	112,767	57,691
City water supply construction services	4,166,600	4,035,515
Pipeline direct drinking water supply construction services	1,025,994	492,195
Sewage treatment and drainage operations services	399,921	389,109
Sewage treatment and water environmental renovation construction services	1,187,560	771,421
Hotel and rental income	104,049	104,467
Finance income	45,534	51,541
Handling income	38,824	41,257
Others	97,778	72,125
	<u>9,099,135</u>	<u>8,070,573</u>
Total	<u>14,194,953</u>	<u>12,949,828</u>
Other income, net:		
Interest income	164,031	123,373
Government grants and subsidies (note)	222,947	191,441
Amortisation of deferred government grants	12,108	35,495
Dividend income from financial assets	9,109	11,165
Gain/(loss) on disposal of other intangible assets, net	13,944	(475)
Gain/(loss) on deregistration or disposal of subsidiaries, net	1,278	(6,127)
(Loss)/gain on disposal of property, plant and equipment, net	(276)	190
Gain on disposal of right-of-use assets	–	1,751
Miscellaneous income, net	3,949	1,751
Total	<u>427,090</u>	<u>358,564</u>

Note: 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 2023

7 SEGMENT INFORMATION (Continued)

For the year ended 31 March 2023 (Continued)

	City water supply HK\$'000	Pipeline direct drinking water supply HK\$'000	Environmental protection HK\$'000	Main contractor construction HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Total HK\$'000
Segment assets	32,172,422	2,484,571	4,879,738	2,139,549	4,110,504	3,267,498	49,054,282
Other financial assets							1,114,765
Investment in associates	257,315	4,479	2,069,026	-	-	71,712	2,402,532
Other corporate assets							8,592,709
							<u>61,164,288</u>
Segment liabilities	5,183,540	569,577	199,115	3,833,077	539,946	615,810	10,941,065
Deferred tax liabilities							1,270,077
Provision for tax							3,027,151
Other corporate liabilities							24,753,861
							<u>39,992,154</u>

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

7 SEGMENT INFORMATION (Continued)

For the year ended 31 March 2022 (Continued)

	City water supply HK\$'000	Pipeline direct drinking water supply HK\$'000	Environmental protection HK\$'000	Main contractor construction HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Total HK\$'000
Segment assets	30,292,087	1,336,365	4,153,763	1,500,689	4,517,570	3,428,472	45,228,946
Other financial assets							1,546,097
Investment in associates	592,142	4,639	2,074,994	-	-	71,759	2,743,534
Other corporate assets							7,545,865
							<u>57,064,442</u>
Segment liabilities	5,357,411	255,855	74,120	2,827,790	1,409,840	305,498	10,230,514
Deferred tax liabilities							1,314,402
Provision for tax							2,597,264
Other corporate liabilities							22,439,518
							<u>36,581,698</u>

For the years ended 31 March 2023 and 2022, the Group did not depend on any single customer under each of the segments.

The Group's revenue from external customers and its non-current assets located in geographical areas other than the People's Republic of China ("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 2023

8 OPERATING PROFIT

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

	2023 HK\$'000	2022 HK\$'000
Cost of consumables and raw materials	3,815,174	3,491,608
Subcontracting costs	1,571,289	1,228,491
Cost of utilities used	439,876	415,497
Cost of raw water and water resources	401,494	427,658
Depreciation of property, plant and equipment	154,990	148,304
Depreciation of right-of-use assets	70,342	73,006
Amortisation of other intangible assets	797,251	659,885
Trade receivables written off	191	1,730
Expected credit loss on trade receivables	45,024	–
Short-term lease and low-value assets lease expenses in respect of:		
– leasehold land and buildings	5,553	7,964
– other property, plant and equipment	1,099	4,494
Auditors' remuneration		
– Audit services	9,280	8,780
– Non-audit services	1,400	2,800
Staff costs (including directors' emoluments – note 13(a)):		
– Direct labour costs	331,899	423,382
– Salaries and wages	492,719	561,931
– Pension scheme contribution	188,108	196,228
– Other staff costs	74,946	89,595
	1,087,672	1,271,136
Property, plant and equipment written off	1,193	578
Net foreign exchange loss	46,776	1,753

9 FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Interest on bank loans	891,433	638,225
Interest on other loans	245,227	227,778
Interest on amounts due to non-controlling equity holders of subsidiaries	5,832	5,781
Interest on lease liabilities	18,348	19,252
Total borrowing costs	1,160,840	891,036
Less: interest capitalised included in property, plant and equipment, investment properties, other intangible assets and properties under development (note)	(527,615)	(422,960)
	633,225	468,076

Note: The borrowing costs have been capitalised at rates of 5.8% for the year ended 31 March 2023 (2022: 3.9%).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

10 INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Note	2023 HK\$'000	2022 HK\$'000
Current income tax:			
– the PRC	(b)	887,866	790,441
Deferred tax (note 37)		43,084	148,652
Total income tax expense		930,950	939,093

(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% (2022: 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 5% to 15% (2022: 5% to 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:

	2023 HK\$'000	2022 HK\$'000
Profit before income tax	4,019,295	3,916,222
Less: Share of results of associates	(162,792)	(234,995)
	3,856,503	3,681,227
Tax calculated at PRC corporate income tax rate of 25% (2022: 25%)	964,126	920,307
Tax effect of non-taxable items	(78,773)	(95,070)
Tax effect of non-deductible items	240,447	199,282
Tax concession	(199,218)	(98,104)
Others	4,368	12,678
Income tax expense	930,950	939,093

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

11 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\$1,856,786,000 (2022: HK\$1,893,573,000) and the weighted average of 1,632,322,000 (2022: 1,617,642,000) ordinary shares in issue during the year.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluting ordinary shares during the year ended 31 March 2023.

For the year ended 31 March 2022, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$1,893,573,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was the adjusted weighted average of 1,632,322,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,617,642,000 used in basic earnings per share calculation and adjusted for the effect of deemed exercise or conversion of convertible bonds existing during the year of 14,680,000 ordinary shares.

12 DIVIDENDS

(a) Dividends attributable to the year

	2023 HK\$'000	2022 HK\$'000
Interim dividend of HK\$0.16 (2022: HK\$0.16) per ordinary share	261,172	261,172
Proposed final dividend of HK\$0.18 (2022: HK\$0.18) per ordinary share	293,818	293,818
	554,990	554,990

The final dividends proposed after the reporting date for the year ended 31 March 2023 and 2022 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

	2023 HK\$'000	2022 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.18 (2022: HK\$0.16) per ordinary share	293,818	253,584
Adjustment to the final dividend (note)	–	7,587
	293,818	261,171

Note: The adjustment was made due to shares issued 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 2023 amounted to HK\$554,990,000 (2022: HK\$522,343,000) or HK\$0.34 (2022: HK\$0.32) per ordinary share.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

13 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 2023:

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	30	22,048
Ms. Ding Bin	-	480	1,500	-	18	502	2,500
Ms. Liu Yu Jie (subsequently re-designated to non-executive director with effect from 12 April 2023)	-	2,400	2,000	-	18	-	4,418
Mr. Li Zhong	-	1,289	1,900	-	18	1,464	4,671
Mr. Duan Jerry Linnan	-	240	1,500	-	18	960	2,718
Non-executive directors							
Mr. Zhao Hai Hu	-	120	-	-	-	606	726
Mr. Makoto Inoue	-	60	-	-	-	-	60
Ms. Wang Xiaoqin	-	1,200	1,100	-	18	1,189	3,507
Independent non-executive directors							
Mr. Chau Kam Wing	348	-	-	-	-	-	348
Mr. Siu Chi Ming	300	-	-	-	-	-	300
Ms. Ho Ping	300	-	-	-	-	-	300
Ms. Zhou Nan	300	-	-	-	-	-	300
Mr. Chan Wai Cheung Admiral (resigned on 1 December 2022)	200	-	-	-	-	-	200
Total	1,448	15,789	20,000	-	108	4,751	42,096

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

13 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 2022:

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	20	22,038
Ms. Ding Bin	-	480	1,000	-	18	531	2,029
Ms. Liu Yu Jie	-	2,400	2,000	-	18	-	4,418
Mr. Li Zhong	-	1,289	1,400	-	18	1,396	4,103
Mr. Duan Jerry Linnan	-	240	1,000	-	18	960	2,218
Non-executive directors							
Mr. Zhao Hai Hu	-	120	-	-	-	629	749
Mr. Makoto Inoue	-	60	-	-	-	-	60
Ms. Wang Xiaoqin	-	1,200	1,100	-	18	1,169	3,487
Mr. Zhou Wen Zhi (retired with effect from 3 September 2021)	-	51	-	-	-	-	51
Independent non-executive directors							
Mr. Chau Kam Wing	348	-	-	-	-	-	348
Mr. Siu Chi Ming	300	-	-	-	-	-	300
Ms. Ho Ping	300	-	-	-	-	-	300
Ms. Zhou Nan	300	-	-	-	-	-	300
Mr. Chan Wai Cheung Admiral	300	-	-	-	-	-	300
Total	1,548	15,840	18,500	-	108	4,705	40,701

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

13 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 (2022: 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 (2022: 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 (2022: 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 (2022: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The five highest paid individuals in the Group during the year included three directors (2022: four directors), details of whose emoluments have been disclosed in note 13(a) to the consolidated financial statements above. The emoluments paid to the remaining two individuals (2022: one individual) during the year are as follows:

	2023 HK\$'000	2022 HK\$'000
Salaries, allowances and other benefits	7,461	2,975
Retirement scheme contribution	106	87
	<u>7,567</u>	<u>3,062</u>

The emoluments fell within the following bands

	2023	2022
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	<u>2</u>	<u>–</u>

During the years ended 31 March 2023 and 2022, 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 2023 and 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1 April 2021						
Cost	1,901,293	45,316	750,297	306,241	363,980	3,367,127
Accumulated depreciation	(122,013)	(28,126)	(150,052)	(204,299)	–	(504,490)
Net carrying amount	1,779,280	17,190	600,245	101,942	363,980	2,862,637
Year ended 31 March 2022						
Opening net carrying amount	1,779,280	17,190	600,245	101,942	363,980	2,862,637
Additions	358	–	52,443	35,730	167,726	256,257
Acquisition of subsidiaries	22,189	–	87,646	1,411	16,907	128,153
Disposals	(498)	–	(988)	(778)	–	(2,264)
Disposal of subsidiaries	–	–	(2)	(40)	–	(42)
Written off	(67)	–	(241)	(270)	–	(578)
Transfers	31,658	–	44,839	154	(76,651)	–
Transfer from properties held for sale (note 25)	133,760	–	–	–	–	133,760
Depreciation	(70,018)	–	(47,743)	(30,543)	–	(148,304)
Exchange realignment	89,061	1,203	29,925	5,477	17,470	143,136
Closing net carrying amount	1,985,723	18,393	766,124	113,083	489,432	3,372,755
At 31 March 2022						
Cost	2,158,716	47,908	966,391	352,223	489,432	4,014,670
Accumulated depreciation	(172,993)	(29,515)	(200,267)	(239,140)	–	(641,915)
Net carrying amount	1,985,723	18,393	766,124	113,083	489,432	3,372,755
Year ended 31 March 2023						
Opening net carrying amount	1,985,723	18,393	766,124	113,083	489,432	3,372,755
Additions	61,146	–	34,317	13,364	212,583	321,410
Disposals	(1,090)	–	(251)	(261)	–	(1,602)
Disposal of a subsidiary	–	–	(69)	(14)	–	(83)
Written off	(714)	–	(303)	(176)	–	(1,193)
Transfers	68,777	–	73,858	182	(142,817)	–
Depreciation	(66,162)	(251)	(59,511)	(29,066)	–	(154,990)
Exchange realignment	(118,273)	(68)	(44,875)	(7,100)	(27,862)	(198,178)
Closing net carrying amount	1,929,407	18,074	769,290	90,012	531,336	3,338,119
At 31 March 2023						
Cost	2,171,392	41,738	1,010,485	340,209	531,336	4,095,160
Accumulated depreciation	(241,985)	(23,664)	(241,195)	(250,197)	–	(757,041)
Net carrying amount	1,929,407	18,074	769,290	90,012	531,336	3,338,119

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 March 2023, the property, plant and equipment with a net carrying amount of HK\$1,236,005,000 (2022: HK\$133,528,000) were pledged to secure loan facilities granted to the Group (note 34(i)(d)).

Depreciation charge for the year ended 31 March 2023 amounted to HK\$119,696,000 (2022: HK\$109,395,000) has been included in cost of sales in the consolidated income statement.

16 RIGHT-OF-USE ASSETS

	2023 HK\$'000	2022 HK\$'000
Leasehold land and land use right	1,094,071	1,178,881
Buildings	208,928	187,828
	1,302,999	1,366,709

As at 31 March 2023, it was included in the leasehold land and land use right with a net carrying amount of HK\$96,659,000 (2022: HK\$70,857,000) 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 2023, there is no legal impediment for the Group to obtain these land use rights certificates.

As at 31 March 2023, the leasehold land and land use right with a net carrying amount of HK\$356,458,000 (2022: HK\$380,064,000) were pledged to secure loan facilities granted to the Group (note 34(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.

Additions to the leasehold land and land use right during the year ended 31 March 2023 were HK\$16,981,000 (2022: HK\$53,121,000).

During the year ended 31 March 2023, total cash outflow for leases of HK\$37,591,000 (2022: HK\$37,200,000) was included in net cash generated from financing activities.

Depreciation charge for the year ended 31 March 2023 amounted to HK\$35,564,000 (2022: HK\$35,773,000) has been included in cost of sales in the consolidated income statement.

The expense relating to short-term leases or leases with low-value assets amounted to HK\$6,652,000 (2022: HK\$12,458,000) have been included in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

17 INVESTMENT PROPERTIES

	2023 HK\$'000	2022 HK\$'000
At fair value		
Opening net carrying amount	1,398,863	1,195,821
Additions	55,128	164,484
Disposal	(10,465)	(20,494)
Exchange realignment	(81,328)	59,052
Closing net carrying amount	1,362,198	1,398,863

As at 31 March 2023, the investment properties with a carrying amount of HK\$1,207,807,000 (2022: HK\$1,305,190,000) were pledged to secure loan facilities granted to the Group (note 34(i)(f)).

Investment properties were revalued on 31 March 2023 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

17 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 property under development located in the PRC	Level 3	Direct comparison approach	Market price of car park per space	HK\$476,744 (2022: HK\$493,827)	The higher of market price, the higher of fair value
		Income capitalisation method	Market unit rents per square meter per month	HK\$244 to HK\$293 (2022: HK\$254 to HK\$305)	The higher of market price, the higher of fair value
			Market yield	4.8% (2022: 5.0%)	The higher of market yield, the lower of 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\$96,310 to HK\$111,491 (2022: HK\$102,972 to HK\$120,623)	The higher of market price, the higher of 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\$500 to HK\$508 (2022: HK\$515 to HK\$674)	The higher of market price, the higher of fair value

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

For minimum lease payments receivables on leases of investment properties, refer to note 42(b) to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

18 INVESTMENT IN ASSOCIATES

	2023 HK\$'000	2022 HK\$'000
Share of net assets	2,319,181	2,601,869
Goodwill	83,351	141,665
	2,402,532	2,743,534

All the balances for amounts due from/(to) associates were unsecured, interest-free and repayable on demand as at 31 March 2023 and 2022 except for the amount due to an associate with carrying amount of HK\$19,767,000 (2022: HK\$23,761,000) which bore interest rate at 5.0% (2022: ranged from 5.0% to 8.0%) per annum and repayable within one year (2022: repayable within one year).

As at 31 March 2023, the Group owned 28.46% (2022: 28.46%) equity interest of Kangda International Environmental Company Limited ("Kangda International"). 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. As at 31 March 2023, the market price per share of Kangda International was HK\$0.53 (2022: HK\$0.70). In the opinion of the directors, Kangda International is considered the principal associate of the Group.

The financial year end date for Kangda International is 31 December. For the purpose of applying the equity method of accounting, the consolidated financial statements of Kangda International for the years ended 31 December 2022 and 2021 have been used. There were no material transactions carried out by Kangda International from 1 January 2023 to 31 March 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

18 INVESTMENT IN ASSOCIATES (Continued)

Summary of financial information for Kangda International and its subsidiaries

	As at 31 December 2022 HK\$'000	As at 31 December 2021 HK\$'000
Summary of consolidated statement of financial position:		
Current assets	7,017,843	6,644,470
Non-current assets	15,035,355	15,925,169
Current liabilities	(6,347,022)	(6,873,407)
Non-current liabilities	(9,031,050)	(9,020,157)
	6,675,126	6,676,075
Less: Non-controlling interests of Kangda International's subsidiaries	(159,504)	(169,895)
Closing net assets	6,515,622	6,506,180
Group's share in %	28.46%	28.46%
Reconciliation to carrying amount:		
Opening carrying values as 1 April	1,851,659	1,646,907
Share of profit for the year	77,993	145,024
Share of other comprehensive income/(loss) for the year	32,348	(26,879)
Share of other reserves	–	5,279
Exchange realignment	(107,654)	81,328
Closing carrying values as 31 March	1,854,346	1,851,659

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For the year ended 31 March 2023

18 INVESTMENT IN ASSOCIATES (Continued)

Summary of financial information for Kangda International and its subsidiaries (Continued)

	For the year ended 31 December 2022 HK\$'000	For the year ended 31 December 2021 HK\$'000
Year ended 31 December		
Summary of consolidated statement of profit or loss and other comprehensive income:		
Revenue	3,368,127	3,603,652
Net profit for the year	274,045	509,570
Other comprehensive income/(loss) for the year	113,663	(94,444)
Total comprehensive income for the year	387,708	415,126

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:

	2023 HK\$'000	2022 HK\$'000
Carrying values	548,186	891,875
Profit before income tax	40,318	88,673
Other comprehensive income	–	–
Total comprehensive income	40,318	88,673

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

As at 31 March 2023 and 2022, the Group has other commitments relating to its investments in the associate as set out in note 42(c) to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	Original currency	2023 HK\$'000	2022 HK\$'000
Listed equity securities in Hong Kong	HK\$	2,104	4,444
Unlisted equity securities outside Hong Kong	RMB	373,289	392,244
Listed debentures outside Hong Kong	USD	86,052	–
		461,445	396,688

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

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

	2023 HK\$'000	2022 HK\$'000
Change in fair value of financial assets at fair value through other comprehensive income	(57,024)	4,445
Dividend income from financial assets (note 6)	9,109	11,165

(iii) Non-current assets pledged as security

As at 31 March 2023, the financial assets at fair value through other comprehensive income with carrying amount of HK\$243,023,000 (2022: HK\$261,728,000) were pledged to secure loan facilities granted to the Group (note 34(i)(j)).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

20 GOODWILL

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

	2023 HK\$'000	2022 HK\$'000
At 1 April		
Gross carrying amount	1,476,185	1,409,125
Accumulated impairment	–	–
Net carrying amount	1,476,185	1,409,125
Opening net carrying amount	1,476,185	1,409,125
Acquisition of subsidiaries	–	30,567
Disposal of a subsidiary	–	(7,997)
Exchange realignment	(56,743)	44,490
Closing net carrying amount	1,419,442	1,476,185
At 31 March		
Gross carrying amount	1,419,442	1,476,185
Accumulated impairment	–	–
Net carrying amount	1,419,442	1,476,185

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

- city water supply CGUs within city water supply segment;
- pipeline direct drinking water supply CGUs within pipeline direct drinking water supply segment;
- environmental protection CGUs within environmental protection segment; and
- other CGUs, which include gas sales and other operations.

Notes to the Consolidated Financial Statements

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20 GOODWILL (Continued)

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

	City water supply CGUs HK\$'000	Pipeline direct drinking water supply CGUs HK\$'000	Environmental protection CGUs HK\$'000	Other CGUs HK\$'000	Total HK\$'000
Carrying amount at 31 March 2023	854,911	74,698	289,192	200,641	1,419,442
Carrying amount at 31 March 2022	895,813	79,309	288,037	213,026	1,476,185

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, pipeline direct drinking water and gas tariff, sewage charges, operating costs (including raw water, gas and electricity costs) until the end of the respective service concession period. Pre-tax discount rates of 10% to 13% are adopted on city water supply, pipeline direct drinking 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 2023.

For sensitivity analysis, had there been a 2% reduction of future business growth rate, a 1% reduction of average city water or pipeline direct drinking 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.

Notes to the Consolidated Financial Statements

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21 OTHER INTANGIBLE ASSETS

	Concession rights to operate water supply		Concession rights to operate sewage treatment		Other operating rights		Total	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
At beginning of the year								
Cost	30,184,250	24,546,479	235,682	217,175	173,210	165,059	30,593,142	24,928,713
Accumulated amortisation	(4,062,297)	(3,261,102)	(7,629)	(866)	(19,661)	(11,784)	(4,089,587)	(3,273,752)
Net carrying amount	26,121,953	21,285,377	228,053	216,309	153,549	153,275	26,503,555	21,654,961
For the year ended								
Opening net carrying amount	26,121,953	21,285,377	228,053	216,309	153,549	153,275	26,503,555	21,654,961
Additions	4,746,225	4,228,877	8,578	7,780	22,203	-	4,777,006	4,236,657
Capital injection	-	94,892	-	-	-	-	-	94,892
Acquisition of subsidiaries	-	117,290	-	-	-	-	-	117,290
Disposals	(17,162)	(4,683)	-	-	-	-	(17,162)	(4,683)
Amortisation	(772,447)	(645,869)	(14,099)	(6,721)	(10,705)	(7,295)	(797,251)	(659,885)
Exchange realignment	(1,329,326)	1,046,069	(8,750)	10,685	(5,091)	7,569	(1,343,167)	1,064,323
Closing net carrying amount	28,749,243	26,121,953	213,782	228,053	159,956	153,549	29,122,981	26,503,555
At 31 March								
Cost	33,312,450	30,184,250	225,641	235,682	186,512	173,210	33,724,603	30,593,142
Accumulated amortisation	(4,563,207)	(4,062,297)	(11,859)	(7,629)	(26,556)	(19,661)	(4,601,622)	(4,089,587)
Net carrying amount	28,749,243	26,121,953	213,782	228,053	159,956	153,549	29,122,981	26,503,555

As at 31 March 2023, the other intangible assets with a net carrying amount of HK\$2,240,307,000 (2022: HK\$2,091,205,000) were pledged to secure loan facilities granted to the Group (note 34(i)(g)).

Amortisation of HK\$797,251,000 (2022: HK\$659,885,000) has been included in cost of sales in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current			
Prepayments	(i)	363,672	363,678
Other receivables		357,988	442,939
		721,660	806,617
Current			
Prepayments		424,098	402,338
Other receivables	(ii)	2,211,311	1,982,043
		2,635,409	2,384,381

Notes:

- (i) As at 31 March 2023 and 2022, the balances mainly represented the prepayments for constructions services.
- (ii) The balances mainly represented receivables from customers for 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 receivable on demand as at 31 March 2023 and 2022, except for the receivables of aggregate carrying amount of approximately HK\$435,220,000 (2022: HK\$381,368,000) which bore interest rates ranged from 5.0% to 8.0% (2022: 5.0% to 8.0%) per annum and were receivable within one year (2022: receivable within one year).

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

23 CONTRACT ASSETS

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

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current			
Relating to service concession arrangements	(i)	1,358,496	1,305,719
Current			
Relating to water supply and water environmental renovation construction businesses	(ii)	1,481,535	879,691
		2,840,031	2,185,410

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\$1,358,496,000 (2022: HK\$1,305,719,000) 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 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\$1,481,535,000 (2022: HK\$879,691,000) 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 3.1(a) to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

24 PROPERTIES UNDER DEVELOPMENT

	2023 HK\$'000	2022 HK\$'000
At cost		
Opening net carrying amount	2,066,096	1,826,463
Additions	224,852	563,190
Transfer to properties held for sale (note 25)	(935,166)	(413,782)
Exchange realignment	(120,148)	90,225
	<u>1,235,634</u>	<u>2,066,096</u>

The amount of properties under development are expected to be recovered after more than one year is HK\$982,707,000 (2022: HK\$1,383,120,000). The remaining balance is expected to be recovered within one year.

25 PROPERTIES HELD FOR SALE

	2023 HK\$'000	2022 HK\$'000
At cost		
Opening net carrying amount	675,926	732,617
Additions	–	9,892
Transfer from properties under development (note 24)	935,166	413,782
Transfer to property, plant and equipment (note 15)	–	(133,760)
Sales for the year	(439,353)	(381,447)
Exchange realignment	(38,001)	34,842
	<u>1,133,738</u>	<u>675,926</u>

As at 31 March 2023, the properties held for sale with carrying amount of approximately HK\$78,568,000 (2022: HK\$83,418,000) were pledged to secure loan facilities granted to the Group (note 34(i)(h)).

The amount of properties held for sale are expected to be recovered after more than one year is HK\$319,245,000 (2022: HK\$270,885,000). The remaining balance is expected to be recovered within one year.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

26 INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials and supplies	367,304	397,264
Work-in-progress	242,616	401,014
Finished goods	40,433	33,380
	650,353	831,658

27 TRADE AND BILLS RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade receivables – gross	2,002,647	1,557,186
Less: loss allowance	(51,023)	(6,370)
Trade receivables – net	1,951,624	1,550,816
Bills receivables	2,414	10,834
	1,954,038	1,561,650

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for certain construction, installation and maintenance 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 the invoice dates is as follows:

	2023 HK\$'000	2022 HK\$'000
0 to 90 days	1,072,772	877,487
91 to 180 days	171,504	150,260
Over 180 days	709,762	533,903
	1,954,038	1,561,650

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

27 TRADE AND BILLS RECEIVABLES (Continued)

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 ended 31 March 2022, no provision for expected credit loss on trade and bills receivables was recognised in consolidated income statement in relation to impaired financial assets. During the year ended 31 March 2023, expected credit loss of HK\$45,024,000 on trade receivables was recognised in the consolidated income statement in relation to impaired financial assets. Information about the loss allowance provision to trade and bills receivables and the Group's exposure to credit risk can be found in note 3.1(a) to the consolidated financial statements.

The movement in the provision for loss allowance during the year is as follows:

	2023 HK\$'000	2022 HK\$'000
Opening carrying amount	6,370	6,070
Loss allowance during the year (note 8)	45,024	–
Exchange realignment	(371)	300
Closing carrying amount	<u>51,023</u>	<u>6,370</u>

To measure the expected credit losses which are included in the balance of provision for impairment, trade receivables have been grouped based on shared credit risk characteristics and due dated of invoices. The expected loss rates are based on the payment profiles of sales over 12 months before 31 March 2023 or 31 March 2022 respectively and the corresponding historical credit losses experienced within these periods. The historical loss rates are adjusting to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the relevant industry in which it sells its goods or services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

28 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 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 service concession arrangements and bear interest at rate of 3.96% to 6.62% (2022: 3.96% to 6.62%) per annum. The amounts are not yet due for payment and will be settled by cash receipt to be generated during the operating periods of the service concession arrangements.

As at 31 March 2023, the receivables under service concession arrangements with a carrying amount of HK\$152,024,000 (2022: HK\$Nil) were pledged to secure loan facilities granted to the Group (note 34(i)(k)).

29 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2023 HK\$'000	2022 HK\$'000
Unlisted exchangeable bonds in Hong Kong	(i)	182,390	240,890
Wealth management products and structured deposits issued by licensed banks	(ii)	470,930	908,519
		653,320	1,149,409

Notes:

- (i) Fair values of the unlisted exchangeable bonds have been determined by reference to the valuation using option pricing model.
- (ii) The balance comprises wealth management products and structured deposits with various licensed banks in the PRC. The Group used income approach of discounted cash flows to determine its fair value. The balance is expected to be recovered within one year, bearing an expected return rate ranging from 1.6% to 5.0% (2022: 1.1% to 5.3%).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

30 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2023 HK\$'000	2022 HK\$'000
Cash at banks/other financial institutions and in hand	6,984,821	6,022,821
Deposits	514,260	506,350
	7,499,081	6,529,171
Deposits pledged for loan facilities (note 34(i)(i))	(104,628)	(112,685)
Deposits pledged for bills payables (note 32)	(344,431)	(357,960)
Other pledged deposits	(65,201)	(35,705)
	(514,260)	(506,350)
Cash and cash equivalents	6,984,821	6,022,821

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 2023, the Group had cash and cash equivalents and pledged deposits denominated in RMB amounting to approximately HK\$5,968,347,000 (2022: HK\$5,240,576,000), 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.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

31 CONTRACT LIABILITIES

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

	2023 HK\$'000	2022 HK\$'000
Non-current		
Receipt in advance from customers for water supply installation and maintenance business	317,692	328,489
Current		
Receipt in advance from customers for water supply operations business	335,788	308,216
Receipt in advance from customers for water supply construction, installation and maintenance and water environmental renovation construction businesses	409,537	288,639
Receipt in advance from customers for property development and investment businesses	656,539	635,142
	1,401,864	1,231,997

(i) Revenue recognised in relation to contract liabilities

For the year ended 31 March 2023, the carried-forward contract liabilities amounted to HK\$978,310,000 (2022: HK\$757,746,000) was recognised in revenue of water supply operations, water supply construction, installation and maintenance and water environmental renovation construction and property development and investment businesses in the consolidated income statement.

(ii) Unsatisfied contracts related to water supply construction, installation and maintenance

As at 31 March 2023, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) was HK\$455,702,000 (2022: HK\$493,752,000).

All other contracts related to water supply operations and 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.

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32 TRADE AND BILLS PAYABLES

	2023 HK\$'000	2022 HK\$'000
Trade payables	4,978,616	4,224,125
Bills payables	425,241	449,774
	5,403,857	4,673,899

The credit terms of trade and bills payables vary according to the terms agreed with different suppliers. The ageing analysis of trade and bills payables based on the invoice dates is as follows:

	2023 HK\$'000	2022 HK\$'000
0 to 90 days	3,085,013	2,467,503
91 to 180 days	874,970	791,483
Over 180 days	1,443,874	1,414,913
	5,403,857	4,673,899

As at 31 March 2023, the bills payables of HK\$425,241,000 (2022: HK\$449,774,000) were secured by the pledged bank deposits of HK\$344,431,000 (2022: HK\$357,960,000) (note 30).

33 ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2023 HK\$'000	2022 HK\$'000
Accrued liabilities	472,607	494,415
Deposits received	97,484	98,906
Other payables (note)	2,561,558	2,082,584
	3,131,649	2,675,905

Note: Other payables mainly included various municipal service charges received on behalf of certain government authorities in the PRC of HK\$591,709,000 (2022: HK\$565,400,000) and payables for other PRC tax surcharges and construction costs, and payables for the Company's interim dividend of HK\$261,172,000 (2022: HK\$Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

34 BORROWINGS

	Notes	Original currency	2023 HK\$'000	2022 HK\$'000
Current				
Bank loans – unsecured	(ii)	RMB	1,634,471	1,072,349
Bank loans – secured	(i), (ii)	RMB	1,768,887	1,641,831
Bank loans – unsecured	(ii)	USD	3,755,498	4,397,332
Bank loans – unsecured	(ii)	HK\$	375,000	350,000
Other loans – unsecured	(iii)	RMB	5,814	–
Other loans – secured	(i), (iii)	RMB	339,369	82,874
Other loans – secured	(i), (iii)	USD	91,764	91,764
Government loans – unsecured	(iv)	RMB	49,737	55,945
			8,020,540	7,692,095
Non-current				
Bank loans – unsecured	(ii)	RMB	1,195,935	1,001,053
Bank loans – secured	(i), (ii)	RMB	5,974,722	5,207,093
Bank loans – unsecured	(ii)	USD	3,987,942	3,954,243
Bank loans – unsecured	(ii)	HK\$	388,709	447,875
Other loans – unsecured	(iii)	RMB	83,132	94,436
Other loans – unsecured	(iii)	USD	2,645,393	2,624,201
Other loans – secured	(i), (iii)	RMB	847,385	209,267
Other loans – secured	(i), (iii)	USD	443,832	532,796
Government loans – unsecured	(iv)	RMB	40,242	100,452
			15,607,292	14,171,416
			23,627,832	21,863,511

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

34 BORROWINGS (Continued)

	2023 HK\$'000	2022 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year	7,533,856	7,461,512
In the second year	1,740,045	4,245,131
In the third to fifth years, inclusive	4,789,935	3,501,571
Beyond five years	5,017,328	2,863,562
	19,081,164	18,071,776
Other loans repayable:		
Within one year	436,947	174,638
In the second year	325,005	173,872
In the third to fifth years, inclusive	3,463,313	3,071,100
Beyond five years	231,424	215,728
	4,456,689	3,635,338
Government loans repayable:		
Within one year	49,737	55,945
In the second year	20,030	22,444
In the third to fifth years, inclusive	20,212	47,144
Beyond five years	–	30,864
	89,979	156,397

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

34 BORROWINGS (Continued)

Notes:

- (i) The borrowings at 31 March 2023 and 2022 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;
 - (d) charges over property, plant and equipment in which their aggregate carrying amount as at 31 March 2023 was HK\$1,236,005,000 (2022: HK\$133,528,000) (note 15);
 - (e) charges over right-of-use assets in which their aggregate carrying amount as at 31 March 2023 was HK\$356,458,000 (2022: HK\$380,064,000) (note 16);
 - (f) charges over investment properties in which their aggregate carrying amount as at 31 March 2023 was HK\$1,207,807,000 (2022: HK\$1,305,190,000) (note 17);
 - (g) charges over other intangible assets in which their aggregate carrying amount as at 31 March 2023 was HK\$2,240,307,000 (2022: HK\$2,091,205,000) (note 21);
 - (h) charges over properties held for sale in which their aggregate carrying amount as at 31 March 2023 was HK\$78,568,000 (2022: HK\$83,418,000) (note 25);
 - (i) charges over the bank deposits in amount of HK\$104,628,000 as at 31 March 2023 (2022: HK\$112,685,000) (note 30);
 - (j) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 31 March 2023 was HK\$243,023,000 (2022: HK\$261,728,000) (note 19(iii)); and
 - (k) charges over receivables under services concession arrangements in which their aggregate carrying amount as at 31 March 2023 was HK\$152,024,000 (2022: HK\$Nil) (note 28).
- (ii) The effective interest rates of the bank loans ranged from 1.2% to 7.8% (2022: 1.2% to 9.2%) per annum at 31 March 2023.
- (iii) The effective interest rates of the other loans ranged from 3.0% to 9.7% (2022: 3.1% to 9.7%) per annum at 31 March 2023.
- (iv) The effective interest rates of the government loans ranged from 1.2% to 5.9% (2022: 1.2% to 5.0%) per annum at 31 March 2023.

Notes to the Consolidated Financial Statements

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35 AMOUNTS DUE FROM/(TO) NON-CONTROLLING EQUITY HOLDERS OF SUBSIDIARIES

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

- (a) the amounts due to non-controlling equity holders of subsidiaries with carrying amount of HK\$11,924,000 (2022: HK\$40,543,000) as at 31 March 2023 which bore interest rate at 7.0% (2022: ranged from 4.3% to 7.0%) per annum and was repayable within one year; and
- (b) the amounts due to non-controlling equity holders of subsidiaries with carrying amount of HK\$120,751,000 (2022: HK\$84,074,000) as at 31 March 2023 which bore interest rate ranged from 1.2% to 5.7% (2022: 1.2% to 5.7%) per annum and was repayable over one year.

36 DEFERRED GOVERNMENT GRANTS

	2023 HK\$'000	2022 HK\$'000
Opening carrying amount	222,246	243,127
Additions	–	2,725
Amortisation (note 6)	(12,108)	(35,495)
Exchange realignment	(12,784)	11,889
Closing carrying amount	<u>197,354</u>	<u>222,246</u>

The deferred government grants mainly related to the Group's acquisition of other intangible assets (note 21).

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37 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	Others HK\$'000	Total HK\$'000
At 1 April 2021	674,521	150,521	224,324	50,020	–	1,099,386
Charged to profit or loss (note 10)	148,652	–	–	–	–	148,652
Acquisition of subsidiaries	–	18,320	–	–	–	18,320
Exchange realignment	29,064	6,932	9,578	2,470	–	48,044
At 31 March 2022	852,237	175,773	233,902	52,490	–	1,314,402
Charged/(credited) to profit or loss (note 10)	35,612	(2,449)	–	(1,335)	11,256	43,084
Exchange realignment	(60,539)	(10,219)	(13,599)	(3,052)	–	(87,409)
At 31 March 2023	827,310	163,105	220,303	48,103	11,256	1,270,077

At 31 March 2023, the Group has unused tax losses of HK\$677,482,000 (2022: HK\$486,171,000) 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 2023, the deferred tax liabilities of HK\$182,336,000 (2022: HK\$152,202,000) 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.

Notes to the Consolidated Financial Statements

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38 SHARE CAPITAL

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 31 March 2022 and 2023	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2021	1,584,903	15,849
Shares issued in respect of conversion of convertible bonds (note)	<u>47,419</u>	<u>474</u>
At 31 March 2022 and 2023	<u>1,632,322</u>	<u>16,323</u>

Note: During the year ended 31 March 2022, approximately 47,419,000 shares were issued in respect of conversion of convertible bonds at HK\$7.62 per ordinary share of the Company (note 40).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

39 SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 9 September 2022. 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 associated company; (b) any consultant or adviser of any member of the Group or associated company; (c) any director (including executive, non-executive or independent non-executive directors) of any member of the Group or associated company; (d) any shareholder of any member of the Group or associated company; or (e) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of the Group or associated company. 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 2023 and 2022, no share option is granted and exercised under the Scheme.

Notes to the Consolidated Financial Statements

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40 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 54 to 55.

The share premium 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.

Convertible bonds equity reserve

On 1 April 2020, the Company entered into a 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"). The Exchangeable Bonds will initially entitle the holder thereof to exchange for 344,129,996 ordinary shares of Kangda International (subject to adjustment). BPEA conditionally agreed to subscribe for the Convertible Bonds of the Company in an aggregate principal amount of approximately HK\$361.3 million.

The Proposed Subscription was completed on 8 May 2020 and the Convertible Bonds and the Exchangeable Bonds were issued on 8 May 2020 accordingly.

On initial recognition, the Convertible Bonds were presented in equity as convertible bonds equity reserve and the Exchangeable Bonds were presented in financial assets at fair value through profit or loss (note 29).

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

40 RESERVES (Continued)

On 12 July 2021, the conversion price of Convertible Bonds was adjusted to HK\$7.62 per ordinary share of the Company (the "Adjusted Conversion Price") as a result of the payment of the final dividend of HK\$0.16 per ordinary share of the Company for the year ended 31 March 2020 and the interim dividend of HK\$0.15 per ordinary share of the Company for the year ended 31 March 2021 by the Company. Based on the Adjusted Conversion Price, the maximum number of ordinary shares of the Company to be issued by the Company upon full conversion of the Convertible Bonds will be increased from 44,886,521 ordinary shares of the Company to 47,419,487 ordinary shares of the Company. On 22 July 2021, the Company converted, at requested by BPEA, the Convertible Bonds in principal amount of HK\$361,336,000 into ordinary shares of the Company at Adjusted Conversion Price of HK\$7.62. After the completion of conversion, the Convertible Bonds was fully exercised and 47,419,487 ordinary shares of the Company were issued during the year ended 31 March 2022.

41 DEREGISTRATION OR DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2023, the Group deregistered or disposed several subsidiaries and recognised a net gain on deregistration or disposal of approximately HK\$1,278,000 (2022: net loss HK\$6,127,000).

42 COMMITMENTS AND GUARANTEES

(a) Capital commitments

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

	2023 HK\$'000	2022 HK\$'000
Contracted, but not provided for		
– Other intangible assets	353,918	450,807
– Property, plant and equipment	7,209	10,873
	361,127	461,680

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

42 COMMITMENTS AND GUARANTEES (Continued)

(b) Operating lease arrangement

As lessor

The Group leases its investment properties under operating lease arrangements for terms ranging from one to twenty years (2022: 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:

	2023 HK\$'000	2022 HK\$'000
Within one year	22,844	24,196
In the second to fifth years, inclusive	24,646	38,754
After five years	5,116	507
	52,606	63,457

(c) As at 31 March 2023, the Group had commitment to make direct capital injections to its associates operating in the PRC of approximately HK\$5,498,000 (2022: HK\$70,004,000).

(d) As at 31 March 2023, the Group had given guarantees to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$18,951,000 (2022: HK\$9,209,000).

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 2023

43 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:**

	2023 HK\$'000	2022 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	53,229	49,581
– Retirement scheme contribution	638	628
	<u>53,867</u>	<u>50,209</u>

(b) **Sales to an associate:**

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

	2023 HK\$'000	2022 HK\$'000
Sales to an associate	<u>247,352</u>	<u>79,466</u>

The Group provided construction services of approximately HK\$247,352,000 (2022: HK\$79,466,000) to subsidiaries 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 2023

44 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Movements of financial liabilities arising from financing activities

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

	Amounts due to associates HK\$'000	Amounts due to non-controlling equity holders of subsidiaries HK\$'000	Lease liabilities HK\$'000	Borrowings HK\$'000
At 1 April 2021	64,772	600,213	359,579	18,428,873
Changes from financing cash flows	(18,151)	598,590	(37,200)	2,960,120
Increase arising from acquisition of subsidiaries	370	37,171	5,912	65,843
New leases	–	–	28,987	–
Exchange differences	3,199	12,921	17,622	408,675
As 31 March 2022 and 1 April 2022	50,190	1,248,895	374,900	21,863,511
Changes from financing cash flow	(9,840)	29,427	(37,591)	2,314,629
New leases	–	–	65,180	–
Exchange differences	(5,507)	(79,586)	(21,390)	(550,308)
At 31 March 2023	34,843	1,198,736	381,099	23,627,832

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

45 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company

Notes	2023 HK\$'000	2022 HK\$'000
Assets and liabilities		
Non-current assets		
Property, plant and equipment	409	560
Investment in subsidiaries	4,706,049	4,228,146
Investment in an associate	–	187,245
Financial assets at fair value through other comprehensive income	88,157	4,444
Amount due from a subsidiary	3,089,244	–
	<u>7,883,859</u>	<u>4,420,395</u>
Current assets		
Financial assets at fair value through profit or loss	182,390	240,890
Amounts due from subsidiaries	7,354,248	9,147,977
Amount due from an associate	–	44,524
Prepayments, deposits and other receivables	5,440	23,187
Pledged deposits	93,000	112,685
Cash and cash equivalents	1,509,253	1,158,371
	<u>9,144,331</u>	<u>10,727,634</u>
Current liabilities		
Amounts due to subsidiaries	6,834,049	195,336
Accrued liabilities, deposits received and other payables	405,538	152,053
Borrowings	4,135,596	4,839,098
	<u>11,375,183</u>	<u>5,186,487</u>
Net current (liabilities)/assets	<u>(2,230,852)</u>	<u>5,541,147</u>
Total assets less current liabilities	<u>5,653,007</u>	<u>9,961,542</u>
Non-current liabilities		
Borrowings	3,477,934	7,559,115
Deferred government grants	2,370	2,370
	<u>3,480,304</u>	<u>7,561,485</u>
Net assets	<u>2,172,703</u>	<u>2,400,057</u>
Equity		
Share capital	38	16,323
Reserves	45(b)	2,383,734
Total equity	<u>2,172,703</u>	<u>2,400,057</u>

Approved and authorised for issue by the board of directors on 27 June 2023 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 2023

45 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(b) Movement of reserves of the Company

	Proposed final dividend HK\$'000	Share premium HK\$'000	Convertible bonds equity reserve 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 HK\$'000	Total HK\$'000
Balance at 1 April 2021	253,584	-	282,190	32,373	3,304	(51,297)	96,808	(689)	487,164	1,103,437
Share issued in respect of conversion of convertible bonds (note 38)	-	281,716	(282,190)	-	-	-	-	-	-	(474)
Final dividend 2021 (note 12)	(253,584)	-	-	-	-	-	-	-	(7,587)	(261,171)
Interim dividend 2022 (note 12)	-	-	-	-	-	-	-	-	(261,172)	(261,172)
Transactions with owners	(253,584)	281,716	(282,190)	-	-	-	-	-	(268,759)	(522,817)
Proposed final dividend 2022 (note 12)	293,818	-	-	-	-	-	-	-	(293,818)	-
Profit for the year	-	-	-	-	-	-	-	-	1,803,377	1,803,377
Other comprehensive (loss)/income										
- Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	741	-	-	-	741
- Currency translation	-	-	-	-	-	-	-	(1,004)	-	(1,004)
Total comprehensive (loss)/income for the year	-	-	-	-	-	741	-	(1,004)	1,803,377	1,803,114
Balance at 31 March 2022	293,818	281,716	-	32,373	3,304	(50,556)	96,808	(1,693)	1,727,964	2,383,734

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

45 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

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

	Proposed final dividend HK\$'000	Share premium 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 HK\$'000	Total HK\$'000
Balance at 1 April 2022	293,818	281,716	32,373	3,304	(50,556)	96,808	(1,693)	1,727,964	2,383,734
Final dividend 2022 (note 12)	(293,818)	-	-	-	-	-	-	-	(293,818)
Interim dividend 2023 (note 12)	-	-	-	-	-	-	-	(261,172)	(261,172)
Transactions with owners	(293,818)	-	-	-	-	-	-	(261,172)	(554,990)
Proposed final dividend 2023 (note 12)	293,818	-	-	-	-	-	-	(293,818)	-
Profit for the year	-	-	-	-	-	-	-	379,476	379,476
Other comprehensive (loss)/income									
- Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(53,536)	-	-	-	(53,536)
- Currency translation	-	-	-	-	-	-	1,696	-	1,696
Total comprehensive (loss)/income for the year	-	-	-	-	(53,536)	-	1,696	379,476	327,636
Balance at 31 March 2023	293,818	281,716	32,373	3,304	(104,092)	96,808	3	1,552,450	2,156,380

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

45 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

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

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

The share premium mainly includes shares issued at a premium.

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.

Convertible bonds equity reserve

On 1 April 2020, the Company entered into a subscription agreement with BPEA 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 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 at the initial conversion price (subject to adjustment) of HK\$8.05 per Conversion Share. The Exchangeable Bonds will initially entitle the holder thereof to exchange for 344,129,996 ordinary shares of Kangda International (subject to adjustment). BPEA conditionally agreed to subscribe for the Convertible Bonds of the Company in an aggregate principal amount of approximately HK\$361.3 million.

The Proposed Subscription was completed on 8 May 2020 and the Convertible Bonds and the Exchangeable Bonds were issued on 8 May 2020 accordingly.

On initial recognition, the Convertible Bonds were presented in equity as convertible bonds equity reserve and the Exchangeable Bonds were presented in financial assets at fair value through profit or loss (note 29).

On 12 July 2021, the conversion price of Convertible Bonds was adjusted to HK\$7.62 per ordinary share of the Company (the "Adjusted Conversion Price") as a result of the payment of the final dividend of HK\$0.16 per ordinary share of the Company for the year ended 31 March 2020 and the interim dividend of HK\$0.15 per ordinary share of the Company for the year ended 31 March 2021 by the Company. Based on the Adjusted Conversion Price, the maximum number of ordinary shares of the Company to be issued by the Company upon full conversion of the Convertible Bonds will be increased from 44,886,521 ordinary shares of the Company to 47,419,487 ordinary shares of the Company. On 22 July 2021, the Company converted, at requested by BPEA, the Convertible Bonds in principal amount of HK\$361,336,000 into ordinary shares of the Company at Adjusted Conversion Price of HK\$7.62. After the completion of conversion, the Convertible Bonds was fully exercised and 47,419,487 ordinary shares of the Company were issued during the year ended 31 March 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(a) General information of principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2023 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
China Water (Hong Kong) Investment Limited	Hong Kong	Ordinary shares of HK\$10,000	–	70%	Investment holding
Dragon Wealthy Corporation Limited	Hong Kong	Ordinary share of HK\$1	–	100%	Investment holding
China Water Group (HK) Limited	British Virgin Islands ("BVI")/ Hong Kong	4 ordinary shares of US\$1 each	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
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
Broad Intelligence Group Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
Silver Dragon Water Supply Group Limited	Bermuda/ Hong Kong	10,007 ordinary shares of HK\$0.01 each (2022: 10,000 ordinary shares of HK\$0.01 each)	100%	–	investment holding
Goldtrust Water Holdings Limited	Cayman Islands/ Hong Kong	100 ordinary shares of US\$1 each	–	100%	Investment holding
銀龍水務投資有限公司 [#]	PRC	Registered capital of RMB2,000,000,000	– (2022: 100%)	100% (2022: –)	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
江西銀龍直飲水有限公司 [^]	PRC	Registered capital of RMB61,000,000	–	100%	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
深圳金達環境控股有限公司 [*]	PRC	Registered capital of RMB602,282,275	–	93.45%	Investment holding
廣東新晟環保集團有限公司 [^]	PRC	Registered capital of RMB323,890,000	–	93.45%	Investment holding
北京銀龍康興實業發展有限公司 [#]	PRC	Registered capital of RMB500,000,000 (2022: RMB50,000,000)	–	100%	Investment holding
北京銀龍元泰實業發展有限公司 [^]	PRC	Registered capital of RMB500,000,000 (2022: RMB50,000,000)	–	100%	Investment holding
北京銀龍興盛實業發展有限公司 [^]	PRC	Registered capital of RMB300,000,000 (2022: RMB30,000,000)	–	100%	Investment holding

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46 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	
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(i)*	PRC	Registered capital of US\$60,589,200	36.9%	14.1%	Investment holding, city water supply and water supply infrastructure
荊州市海澗鄉鎮供水有限公司 [^]	PRC	Registered capital of RMB20,000,000	–	51%	City water supply and water supply infrastructure
江陵銀龍水務有限公司 [#]	PRC	Registered capital of RMB19,000,000 (2022: US\$2,580,000)	–	100%	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
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
石首銀龍水務有限公司 [^]	PRC	Registered capital of RMB58,823,529	–	51%	City water supply and water supply infrastructure
新余水務集團有限公司 [#]	PRC	Registered capital of RMB290,000,000 (2022: RMB150,000,000)	– (2022: 60%)	60% (2022: –)	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	– (2022: 55%)	55% (2022: –)	City water supply and water supply infrastructure
江河港武水務(常州)有限公司(i) [^]	PRC	Registered capital of RMB237,000,000	–	40%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
重慶市永川區僑立水務有限公司 [#]	PRC	Registered capital of RMB200,000,000	– (2022: 100%)	100% (2022: –)	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 RMB133,000,000	– (2022: 60%)	60% (2022: –)	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
寧鄉水務集團有限公司 (formerly known as 長沙(中國水務)集團有限公司)*	PRC	Registered capital of RMB500,000,000	–	90%	City water supply and water supply infrastructure
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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
寧鄉中水銀龍供水服務有限公司 [^]	PRC	Registered capital of RMB5,000,000	–	90%	City water supply and water supply infrastructure
湘潭響塘供水有限公司 [^]	PRC	Registered capital of RMB50,000,000	–	80%	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	– (2022: 20%)	70% (2022: 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	–	63.78%	City water supply and water supply infrastructure
惠州豫鹿實業有限公司 [^]	PRC	Registered capital of RMB20,000,000	–	70%	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	–	62.67%	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 ^{(i)*}	PRC	Registered capital of RMB70,000,000	–	57.14%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
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 and water supply infrastructure
武陟國源水務有限公司 [^]	PRC	Registered capital of RMB41,333,300	–	75%	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	–	77.78%	City water supply and water supply infrastructure
葉縣銀龍農村供水有限公司 [^]	PRC	Registered capital of RMB1,000,000	–	77.78%	City water supply and water supply infrastructure
夏邑縣聰辰自來水有限公司 [^]	PRC	Registered capital of RMB100,000,000 (2022: RMB50,000,000)	–	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 RMB50,000,000	–	100%	City water supply and water supply infrastructure
河南銀龍(扶溝)供水有限公司 [^]	PRC	Registered capital of RMB100,000,000 (2022: 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 RMB100,000,000 (2022: RMB14,000,000)	–	100%	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
獲嘉縣新水水務有限公司#	PRC	Registered capital of RMB100,000,000 (2022: RMB50,000,000)	–	100%	City water supply and water supply infrastructure
寶豐縣銀龍水務有限公司*	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#	PRC	Registered capital of RMB20,000,000	–	100%	City water supply and water supply infrastructure
周口市善水務有限公司*	PRC	Registered capital of RMB156,862,700	–	51%	City water supply and water supply infrastructure
新河縣銀龍水務有限公司^	PRC	Registered capital of RMB3,000,000	–	100%	City water supply and water supply infrastructure
魯山縣銀龍水務有限公司*	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\$60,690,000	–	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 RMB94,108,750 (2022: RMB62,308,750)	– (2022: 30%)	60% (2022: 30%)	City water supply and water supply infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
萍鄉水務有限公司*	PRC	Registered capital of RMB282,000,000	– (2022: 26%)	51% (2022: 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 RMB50,104,000 (2022: RMB30,000,000)	– (2022: 30%)	86.55% (2022: 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	– (2022: 49%)	60% (2022: 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
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*	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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
鶴崗三立水務有限公司*	PRC	Registered capital of RMB153,708,300	–	55%	City water supply, water supply infrastructure and drainage operation
分宜銀龍水務有限公司*	PRC	Registered capital of RMB112,000,000 (2022: RMB75,000,000)	– (2022: 66.67%)	100% (2022: 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	–	60%	City water supply and water supply infrastructure
鞏義市銀龍源盛水務有限公司*	PRC	Registered capital of RMB300,000,000	–	65% (2022: 60%)	City water supply and water supply infrastructure
鉛山縣銀龍水務有限公司#	PRC	Registered capital of RMB139,600,000 (2022: RMB103,100,000)	–	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
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
貴州黔東水務有限公司*	PRC	Registered capital of RMB95,308,000	–	90%	City water supply, water supply infrastructure and sewage treatment
長沙(中國水務)直飲水集團有限公司^	PRC	Registered capital of RMB1,000,000,000	–	100%	Direct drinking water operation and construction
長沙水杯子直飲水工程設備有限公司*	PRC	Registered capital of RMB100,000,000 (2022: RMB20,000,000)	–	51%	Direct drinking water operation and construction

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
Nanjing Aquacup Technology Corporation Limited [^]	PRC	Registered capital of RMB68,239,184	–	51%	Direct drinking water operation and construction
南京水杯子淨水科技有限公司 [^]	PRC	Registered capital of RMB20,010,000	–	51%	Direct drinking water operation and construction
江蘇海德能淨水科技有限公司 [^]	PRC	Registered capital of RMB10,000,000	–	51%	Direct drinking water operation and construction
江西銀龍水環境建設有限責任公司 [^]	PRC	Registered capital of RMB400,000,000	–	74.76%	Municipal public construction
寶雞市金信安水務有限公司 [^]	PRC	Registered capital of RMB42,680,000	–	93.45%	Sewage treatment
寶雞市陳倉金信安水務有限公司 [^]	PRC	Registered capital of RMB12,000,000	–	93.45%	Sewage treatment
荊州中水環保有限公司 [^]	PRC	Registered capital of RMB63,749,400	–	93.45%	Sewage treatment operation and construction
萬年縣中水環保有限公司 [^]	PRC	Registered capital of RMB53,000,000	–	93.45%	Sewage treatment operation and construction
分宜中水環保有限公司 [^]	PRC	Registered capital of RMB18,000,000	–	93.45%	Sewage treatment operation and construction
鉛山縣中水環保有限公司 [^]	PRC	Registered capital of RMB13,470,000	–	93.45%	Sewage treatment operation and construction
天津正坤水處理有限公司 [^]	PRC	Registered capital of RMB13,000,000	–	93.45%	Sewage treatment operation and construction

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
天津重科水處理有限公司 [^]	PRC	Registered capital of RMB14,000,000	–	93.45%	Sewage treatment operation and construction
邯鄲市峰峰錦晟污水處理有限公司 [^]	PRC	Registered capital of RMB1,000,000	–	93.45%	Sewage treatment operation and construction
邯鄲成晟水務有限公司 [^]	PRC	Registered capital of RMB21,000,000	–	93.45%	Sewage treatment operation and construction
邯鄲市峰峰礦區世晟中水處理有限公司 [^]	PRC	Registered capital of RMB6,000,000	–	93.45%	Sewage treatment
鹿邑新晟中水環保有限公司 [^]	PRC	Registered capital of RMB6,000,000	–	93.45%	Sewage treatment operation and construction
鹿邑金達環保有限公司 [^]	PRC	Registered capital of RMB15,000,000	–	93.45%	Sewage treatment operation and construction
長沙(中國水務)環保有限責任公司*	PRC	Registered capital of RMB433,270,000	15%	60.74%	Sewage treatment operation and construction
北京同晟水淨化有限公司 [^]	PRC	Registered capital of RMB13,000,000	–	93.45%	Sewage treatment operation and construction
高安新晟中水環保有限公司 [^]	PRC	Registered capital of RMB16,000,000	–	93.45%	Sewage treatment
鎮平新晟中水環保有限公司 [^]	PRC	Registered capital of RMB21,000,000	–	93.45%	Sewage treatment
惠州大亞灣清源環保有限公司 [^]	PRC	Registered capital of RMB20,000,000 (2022: RMB15,000,000)	–	65.42%	Sewage treatment

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
深圳市大通水務有限公司 [^]	PRC	Registered capital of RMB108,780,000	–	93.45%	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
惠州中海節能環保技術服務有限公司(i) [^]	PRC	Registered capital of RMB10,000,000	–	47.66%	Energy conservation and environmental protection
北京上河元有限公司 [^]	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
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	–	100%	Property development and investment
重慶金錦駿昌實業有限公司 [^]	PRC	Registered capital of RMB61,200,000	–	100%	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	–	93.1%	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	–	100%	Property development and investment

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

46 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	
新余仙女湖新城旅游開發有限公司*	PRC	Registered capital of RMB144,948,500	22.77%	70.33%	Development and infrastructure of sightseeing area
江蘇河海置業有限公司*	PRC	Registered capital of RMB57,500,000	–	100%	Hotel operation

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) 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 2023

46 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 2023 are as follows:

Name	Place of establishment/ operation	Particulars of registered capital	Group's effective interest held/ profit sharing	Principal activities
梧州粵海江河水務有限公司	PRC	RMB110,000,000	49%	City water supply
廣西梧州自來水工程有限公司	PRC	RMB5,000,000	49%	City water supply
惠州大亞灣泓溢供水有限公司	PRC	RMB10,000,000	31.25%	City water supply and water supply infrastructure
貴州馨韻頤鶴泉水務科技發展有限公司	PRC	RMB10,080,000	17.85%	Direct drinking water operation and construction
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	28.46%	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	PRC	RMB500,000,000	29%	Construction and operations in urban water treatment businesses, water environment comprehensive remediation and rural water improvement

47 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2023.

Particulars of Properties Held for Investment

For the year ended 31 March 2023

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 10 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	000998684	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 2023

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	93.1%	231,000	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	93.1%	122,000	Commercial/ residential	Construction in progress
鹿邑縣西迎賓大道東側、永興路南側	100%	78,600	Commercial/ residential	Construction in progress
鹿邑縣衛真西路北側隱山路西側	100%	28,663	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 2023

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	93.1%	39,000	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
鹿邑縣明道路西側、紫氣大道北側	100%	24,551	Commercial/ residential	Completed

Note: Insignificant properties held for sale are not included.

Five-Year Financial Summary

RESULTS

	Year ended 31 March				
	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue	14,194,953	12,949,828	10,345,533	8,694,303	8,302,211
Profit before income tax	4,019,295	3,916,222	3,529,621	3,164,509	2,772,059
Income tax expense	(930,950)	(939,093)	(867,547)	(657,220)	(641,776)
Profit for the year	3,088,345	2,977,129	2,662,074	2,507,289	2,130,283
Attributable to:					
Owners of the Company	1,856,786	1,893,573	1,692,464	1,639,495	1,369,235
Non-controlling interests	1,231,559	1,083,556	969,610	867,794	761,048
	3,088,345	2,977,129	2,662,074	2,507,289	2,130,283

ASSETS AND LIABILITIES

	At 31 March				
	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Total assets	61,164,288	57,064,442	47,038,047	41,902,953	35,824,636
Total liabilities	(39,992,154)	(36,581,698)	(30,088,019)	(27,804,450)	(22,922,166)
Non-controlling interests	(8,178,980)	(7,513,532)	(6,437,485)	(5,590,793)	(4,932,004)
Equity attributable to owners of the Company	12,993,154	12,969,212	10,512,543	8,507,710	7,970,466