

Annual Report  
**2017**



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

Stock code : 855

# Contents

	<i>Pages</i>
Corporate Information	2
Financial Highlights	4
Chairman's Statement	8
Directors' and Senior Management Biographical Details	13
Corporate Governance Report	16
Directors' Report	25
Independent Auditor's Report	35
Consolidated Income Statement	43
Consolidated Statement of Comprehensive Income	44
Consolidated Statement of Financial Position	45
Consolidated Statement of Changes in Equity	47
Consolidated Statement of Cash Flows	49
Notes to the Consolidated Financial Statements	52
Particulars of Properties Held for Investment	166
Particulars of Properties Held under Development	167
Five-Year Financial Summary	168

## Corporate Information

### BOARD OF DIRECTORS

#### Executive

Mr. Duan Chuan Liang (*Chairman*)

Ms. Ding Bin

Ms. Liu Yu Jie

Mr. Li Zhong

#### Non-executive

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi

Mr. Makoto Inoue

Ms. Wang Xiaoqin

#### Independent Non-executive

Mr. Chau Kam Wing

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping (appointed on 8 February 2017)

### AUDIT COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping (appointed on 8 February 2017)

### REMUNERATION COMMITTEE

Mr. Chau Kam Wing (*Chairman of committee*)

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping (appointed on 8 February 2017)

### NOMINATION COMMITTEE

Mr. Duan Chuan Liang (*Chairman of committee*)

Mr. Chau Kam Wing

Mr. Siu Chi Ming

Ms. Ho Ping (appointed on 8 February 2017)

### COMPANY SECRETARY

Mr. Lie Chi Wing, FCCA, CPA, CFA

### AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang

Mr. Lie Chi Wing

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

### HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

### LEGAL ADVISERS

As to Bermuda law

Conyers Dill & Pearman

### AUDITOR

PricewaterhouseCoopers

### PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

China Merchants Bank

Asian Development Bank

### WEBSITE

<http://www.chinawatergroup.com>

### STOCK CODE

855

# Corporate Information

- City water supply operation and construction
  - Connected users of approximately 2.9 million
  - Serving approximately 10 million people
  - Water pipelines over 130,000 km

■ Sewage treatment operation and construction

▲ Drainage operation



## Financial Highlights

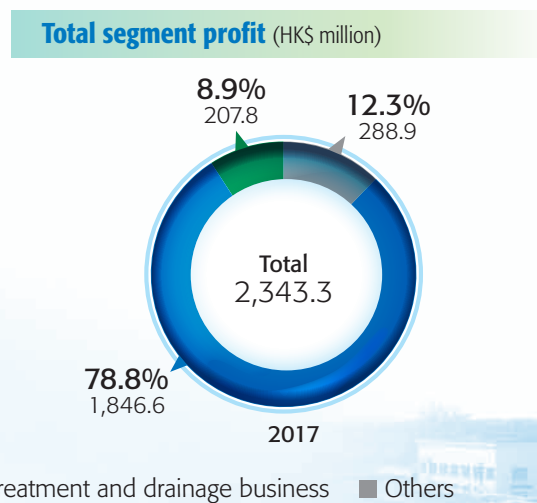
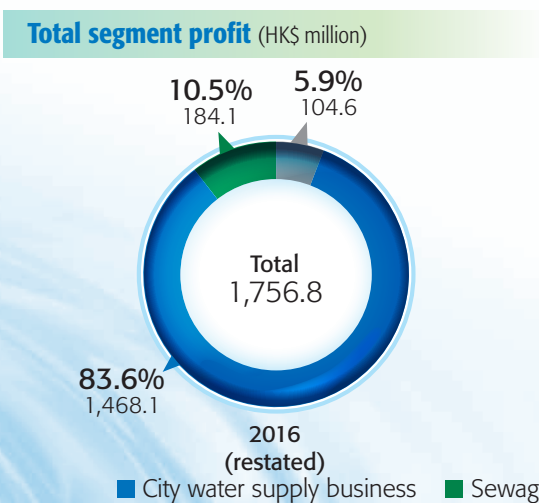
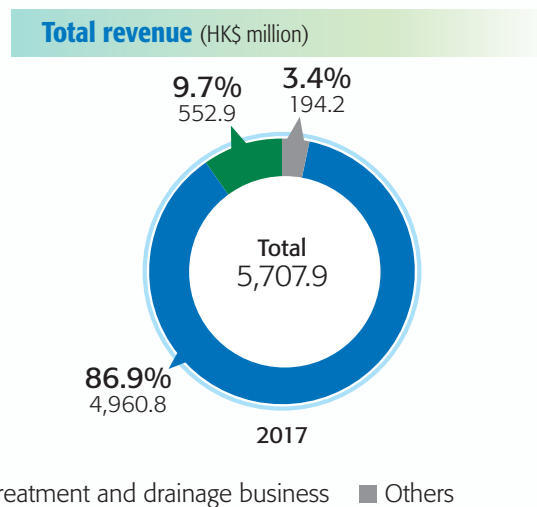
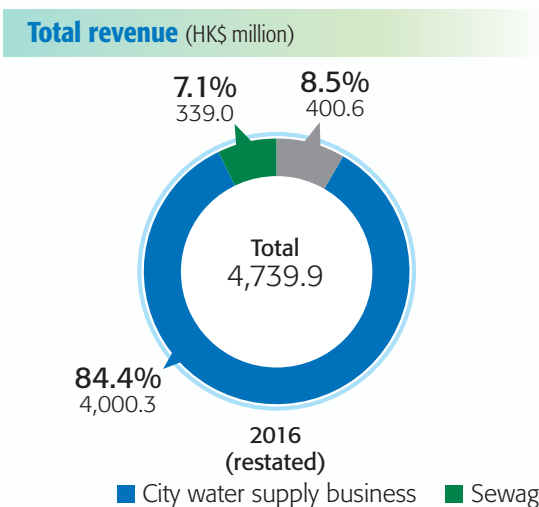
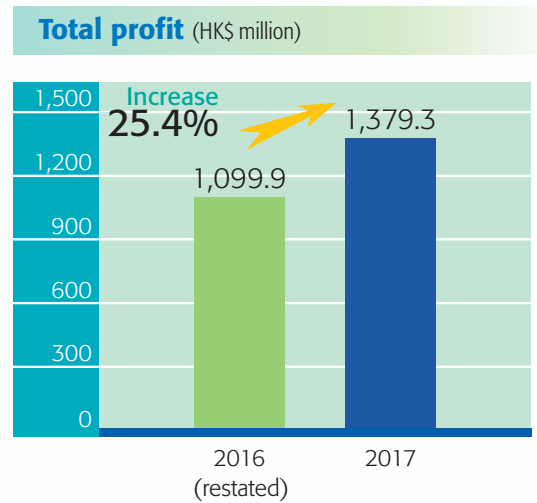
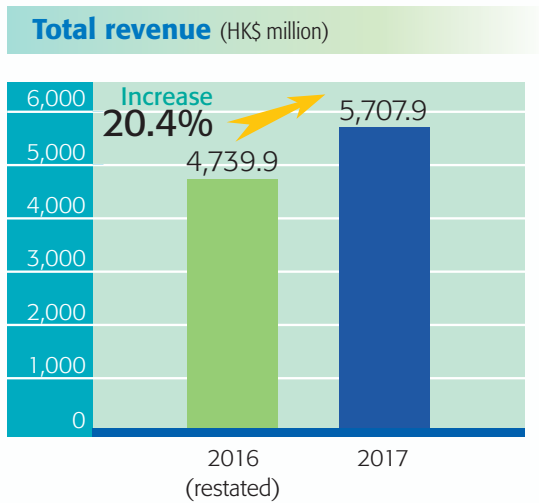
	2017 HK\$'000	2016 HK\$'000 (Restated)	Change
<b>RESULTS HIGHLIGHTS</b>			
Revenue	<b>5,707,895</b>	4,739,902	20.4%
Gross profit	<b>2,484,905</b>	2,097,935	18.4%
Profit for the year	<b>1,379,346</b>	1,099,852	25.4%
Profit for the year attributable to owners of the Company	<b>853,634</b>	608,112	40.4%
Basic earnings per share (HK cents)	<b>56.72</b>	40.31	40.7%
Diluted earnings per share (HK cents)	<b>55.39</b>	40.14	38.0%
Total dividend per share (HK cents)	<b>20</b>	8	
– Interim dividend (HK cents)	<b>4</b>	3	
– Final dividend (HK cents)	<b>6</b>	5	
– Special final dividend (HK cents)	<b>10</b>	–	
<b>BALANCE SHEET HIGHLIGHTS AND RATIOS</b>			
	<b>31 March 2017 HK\$'000</b>	31 March 2016 HK\$'000 (Restated)	Change
Total assets	<b>25,631,709</b>	<b>19,971,063</b>	28.3%
Total liabilities	<b>16,668,776</b>	<b>11,524,621</b>	44.6%
Net assets	<b>8,962,933</b>	<b>8,446,442</b>	6.1%
Net assets per share <sup>1</sup>	<b>3.70</b>	<b>3.46</b>	6.9%
Current ratio	<b>1.34</b>	<b>1.25</b>	
Gearing ratio <sup>2</sup>	<b>65.0%</b>	<b>57.7%</b>	

<sup>1</sup> Net assets per share = Equity attributable to owners of the Company / Ordinary shares in issue at year end.

<sup>2</sup> Gearing ratio = Total liabilities / Total assets

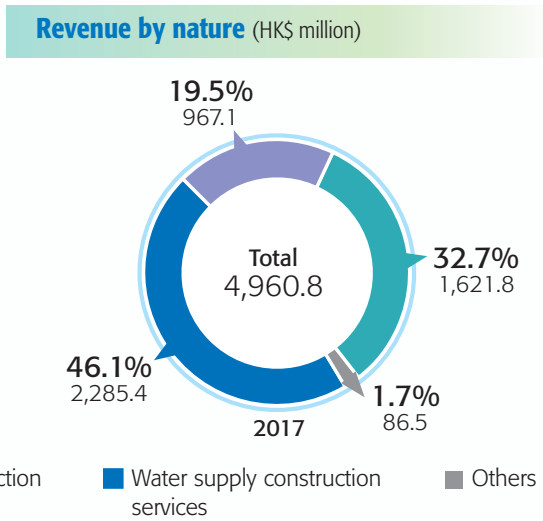
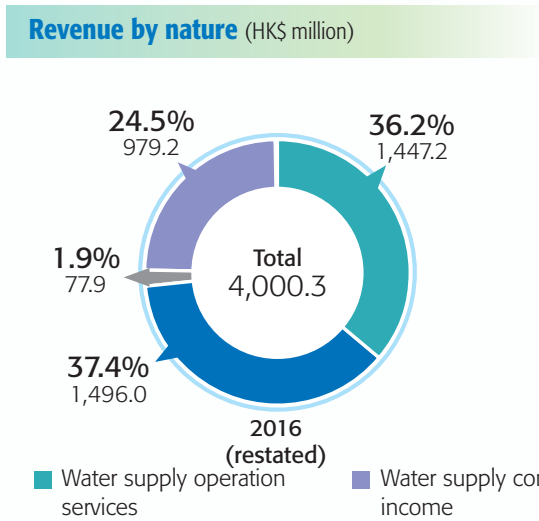
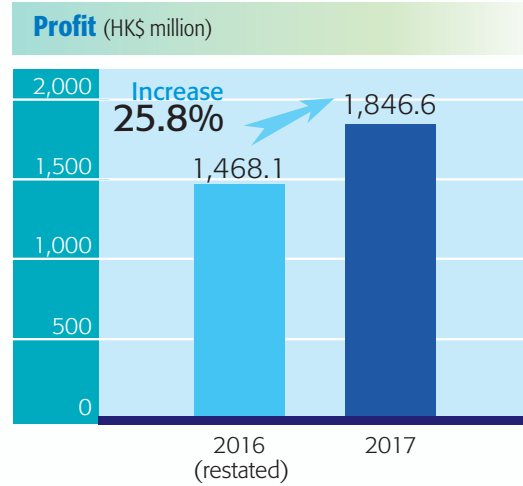
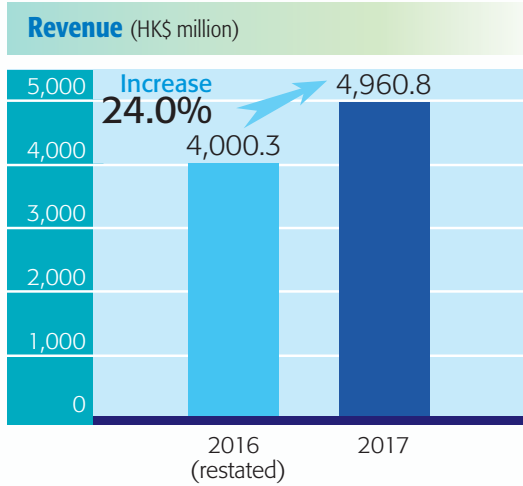
# Financial Highlights

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



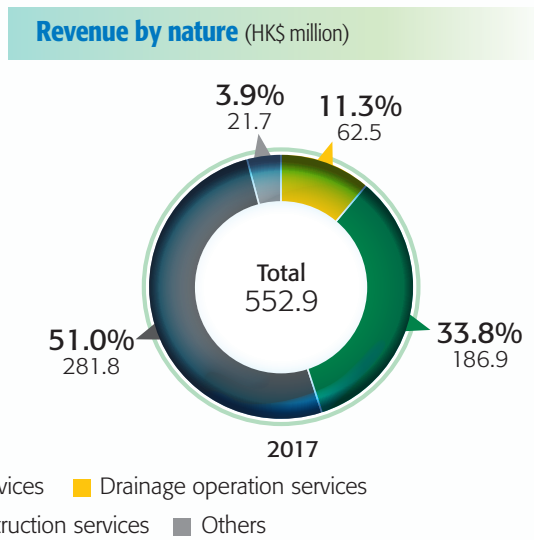
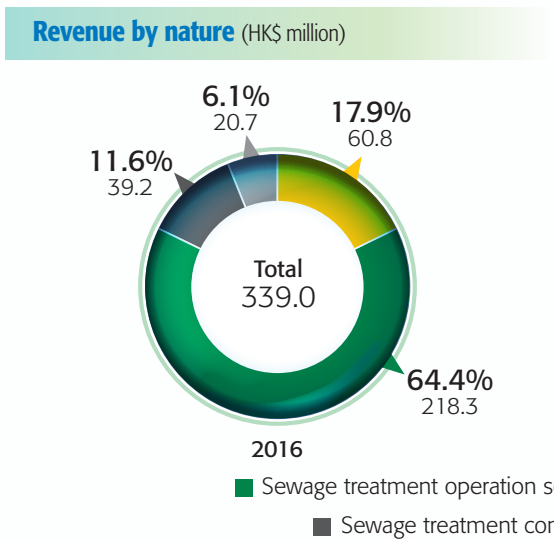
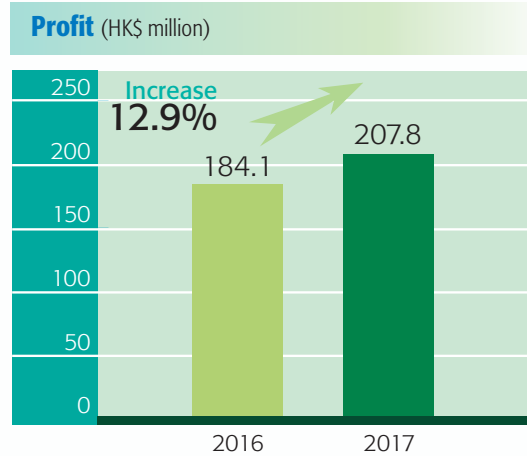
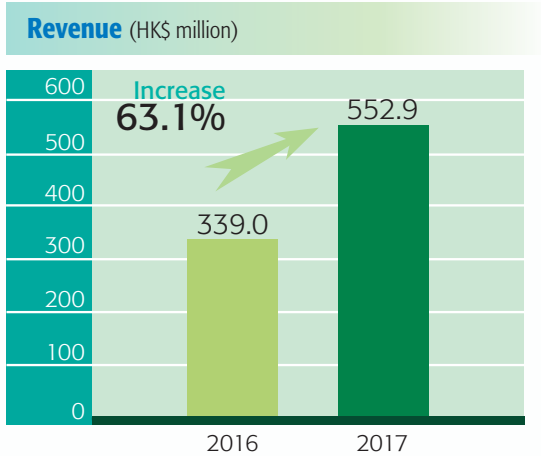
# Financial Highlights

## 1. Water Supply Business Analysis



# Financial Highlights

## 2. Sewage Treatment and Drainage Business Analysis



■ Sewage treatment operation services  
 ■ Drainage operation services  
■ Sewage treatment 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 2017.

### FINANCIAL PERFORMANCE

The Group continued its effort to strengthen the management of its subsidiaries and expanded the operating capacity and investment scale in the existing sector. The Group had a remarkable growth in its core businesses of city water supply operation and construction and sewage treatment and drainage operation and construction for the year ended 31 March 2017. The combined revenue from city water supply operation and construction and sewage treatment and drainage operation and construction business amounted to HK\$5,513.7 million (2016: HK\$4,339.3 million), representing a significant increase of 27.1% as compared with the last corresponding year. The relevant combined segment profit amounted to HK\$2,054.4 million (2016: HK\$1,652.2 million), representing a significant increase of 24.3% as compared with the last corresponding year.

For the overall result of the year ended 31 March 2017, the Group recorded a revenue of HK\$5,707.9 million, representing a significant increase of 20.4% from HK\$4,739.9 million in last year. The Group recorded a gross profit of HK\$2,484.9 million representing a significant increase of 18.4% from HK\$2,097.9 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\$853.6 million, representing a significant increase of 40.4% from HK\$608.1 million in last year. The basic earnings per share increased significantly by 40.7% to HK56.72 cents in current year.

### DIVIDENDS

In consideration of the satisfactory results, the board of directors (the "Board") has proposed to pay the equity shareholders of the Company a final dividend of HK6 cents per share. Special final dividend of HK10 cents per share was proposed to mark the moving forward to the 15th anniversary of the Company engaged in the water business since 2003. Together with the interim dividend of HK4 cents per share, the total dividends for the year will be HK20 cents per share (2016: HK8 cents per share).

### BUSINESS

The Group upholds its business vision of "Water-oriented, Kindness to Society" while striving for its goal of becoming the best operator of raw water, tap water, sewage treatment and related services in the People's Republic of China (the "PRC") and achieving satisfactory results. The Group sustained continuous growth in its water supply and sewage businesses, serving approximately 10 million people in over 50 cities and counties in various provinces. China faces severe shortage of water resources which is further aggravated by accelerating urbanisation and economic growth. It is expected that the water sector has considerable room for growth. As economic growth and marketisation of the water sector continues, we believe that water tariff and usage still have ample room to grow.

### APPRECIATION

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

## Chairman's Statement

### BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$4,739.9 million for the year ended 31 March 2016 to HK\$5,707.9 million for the year ended 31 March 2017, representing a significant increase of 20.4%. The Group recorded a robust growth in its "Water" segment. For the year under review, the total revenue attributable to the "Water" segment amounted to HK\$5,513.7 million, which represented approximately 96.6% of the total revenue. For the corresponding year under review, the total revenue attributable to the "Water" segment amounted to HK\$4,339.3 million, which represented approximately 91.5% of the total revenue. This represented a strong growth of "Water" segment revenue by 27.1%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and installation work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

#### (i) Water Supply Business Analysis

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

For the year under review, the revenue from city water supply operation and construction amounted to HK\$4,960.8 million (2016: HK\$4,000.3 million), representing a significant increase of 24.0% as compared with the last corresponding year. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,846.6 million (2016: HK\$1,468.1 million), representing a significant increase of 25.8% as compared with the last corresponding year. This was mainly because of procurement of more construction and connection work driven by the continuation of urban-rural integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the new water projects during the year.

For the year under review, the Group shared the profits of associates engaged in city water supply business in an amount of HK\$45.5 million (2016: HK\$20.5 million), representing a significant increase of 122.0% as compared with the last corresponding year.

#### (ii) Sewage Treatment Business Analysis

Sewage treatment projects of the Group are well spread in various provincial cities and regions across China, including Beijing, Tianjin, Shenzhen, Guangdong, Henan, Hebei, Hubei, Jiangsu, Jiangxi and Shaanxi.

For the year under review, the revenue from sewage treatment and drainage operation and construction amounted to HK\$552.9 million (2016: HK\$339.0 million), representing a significant increase of 63.1% as compared with the last corresponding year. The sewage treatment and drainage segment profit (including sewage treatment and drainage operation and construction) amounted to HK\$207.8 million (2016: HK\$184.1 million), representing an increase of 12.9% as compared with the last corresponding year.

## Chairman's Statement

### (iii) Property Business Analysis

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

For the year under review, the revenue from the property business segment amounted to HK\$22.0 million (2016: HK\$23.3 million). The total property business segment profit amounted to HK\$316.0 million (2016: HK\$44.1 million), representing a substantial increase of 616.6% as compared with the last corresponding year, which was mainly because of increase in the fair value gain on investment properties by HK\$263.6 million (2016: fair value gain of HK\$52.9 million) in current year.

For the year under review, the Group also recorded a gain on disposal of subsidiaries amounted to HK\$43.9 million, which mainly represented the gain on disposal of the entire interest in 寧鄉建和建材有限公司, and 60% equity interest in 新余市建和混凝土有限公司 and its subsidiaries. For the corresponding year under review, the Group recorded a loss on disposal of a subsidiary amounted to HK\$1.5 million, which represented the loss on disposal of 51% equity interest in 萍鄉建和建材有限公司. The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing water supply related businesses in China.

### PROSPECTS

With our outstanding management, the Group is committed to enhance the efficiency, quality and services of our water supply operations through co-operation with the Chinese government, with whom we invest, construct and own the city water supply business together. Currently, we are embracing a valuable opportunity: on one hand, China is further pushing forward urbanisation and industrialisation; on the other hand, the Chinese government provides public services through Public-Private Partnership, and the current government even determined ecological civilisation as the nation's strategy. Amid challenges such as shortage of water resources, severe water pollution and unbalanced distribution of water resources, the government took a bold move and defined water as a commodity, introduced trading of water rights and let the price of such commonest public product to be set by the market eventually. Progressive water tariff system has also been implemented so as to protect the fundamental rights of the low-income group.

With our sound internal financial resources, we are well positioned to grasp every development opportunity. Throughout the years of water supply operations, we have earned trust from the government and public, and acquired experience of operation and management. We shall uphold our business vision of "the highest excellence is like that of water" and "kindness to society" and position actively the water supply market countrywide. We will also continue to enhance our internal management and accelerate the disposal of non-core assets with an aim of improving the Group's core competitiveness and corporate value, and maximising returns for our shareholders.

### MAJOR ACQUISITIONS AND DISPOSALS

Details of the Group's acquisitions and disposals during the years ended 31 March 2017 are set out in notes 39 and 40 to the consolidated financial statements respectively.

## Chairman's Statement

### UPDATE ON THE PROPOSED SPIN-OFF OF THE GROUP'S CONCRETE BUSINESS AND INSTALLATION BUSINESS

The Company issued announcements on 18 September 2015 and 6 October 2015 in relation to the proposed spin-off of the Group's concrete business in Jiangxi and Hunan Provinces and installation business of water pipes and meters in Ningxiang county, Hunan Province, the PRC (the "Proposed Spin-Off"). Due to changes in the business environment and prospect of the concrete industry in the PRC, the Board has re-evaluated the benefit of the Proposed Spin-Off and decided to put it on hold so as to concentrate on the development of our core water business.

### CAPITAL RAISING

During the year ended 31 March 2017, the subscription rights attaching to 21,800,000 and 2,000,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$3.50 and HK\$3.60 per share respectively, resulting in the issue of aggregate of 23,800,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$83,500,000 (before expenses).

### ISSUE OF SENIOR NOTES

On 25 January 2017, the Company and certain existing subsidiaries of the Company which provided guarantee, entered into a purchase agreement with Morgan Stanley & Co. International plc in connection with the issue of US\$300 million 5.25% senior notes due February 2022. The Company intended to use the net proceeds from the notes issue in the Company's ordinary course of business for general corporate purposes, including but not limited to for financing working capital and repayment of certain indebtedness.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2017, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$5,097.0 million (2016: HK\$3,018.6 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 65.0% (2016: 57.7%) as at 31 March 2017. The current ratio is 1.34 times (2016: 1.25 times) as at 31 March 2017. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

### HUMAN RESOURCES

As at 31 March 2017, the Group has employed approximately 7,100 staff. Most of them stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

### FOREIGN EXCHANGE RISK MANAGEMENT

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

## Chairman's Statement

### PLEDGE OF ASSETS

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 31 March 2017 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 amounts as at 31 March 2017 was HK\$587,168,000 (2016: Nil, restated);
- (d) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2017 was HK\$272,859,000 (2016: HK\$197,157,000);
- (e) charges over investment properties in which their aggregate carrying amounts as at 31 March 2017 was HK\$109,728,000 (2016: HK\$196,783,000);
- (f) charges over other intangible assets in which their aggregate carrying amounts as at 31 March 2017 was HK\$510,411,000 (2016: HK\$467,037,000, restated);
- (g) charges over the properties under development in which their aggregate carrying amounts as at 31 March 2017 was HK\$63,588,000 (2016: HK\$63,584,000);
- (h) charges over the available-for-sale financial assets and derivative financial assets in which their aggregate carrying amounts as at 31 March 2017 were HK\$322,909,000 and HK\$45,298,000 respectively (2016: HK\$206,162,000 and HK\$67,004,000 respectively); and
- (i) charges over the Group's bank deposits in amount of HK\$783,013,000 as at 31 March 2017 (2016: HK\$466,762,000).

### CONTINGENT LIABILITIES

As at 31 March 2017, the Group did not have any material contingent liabilities (2016: Nil).

### ACKNOWLEDGEMENTS

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

**Duan Chuan Liang**

*Chairman*

Hong Kong, 29 June 2017

## Directors' and Senior Management Biographical Details

### DIRECTORS

#### Executive Directors

**Mr. Duan Chuan Liang**, aged 54, was graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree, major in irrigation and water conservancy works. Mr. Duan worked for The Ministry of Water Resources of the PRC for more than ten years. He was also the chairman and non-executive director of China City Infrastructure Group Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2349). He joined the Group in 2003.

**Ms. Ding Bin**, aged 41, has over 10 years of experience in financial management and tax planning. Ms. Ding was graduated from Zhengzhou University of Technology in finance and computing management. Ms. Ding is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants. Ms. Ding joined the Group in 2007.

**Ms. Liu Yu Jie**, aged 53, 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 Hong Kong 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, a company listed on the main board of the Stock Exchange (stock code: 436). She joined the Group in 2014.

**Mr. Li Zhong**, aged 48, was graduated from the Beijing University of Chemical Technology with a major in Polymer Materials, and obtained a Master Degree in Business Administration from Saint Mary's University of Canada in 1997. He holds registered engineer certifications from both Mainland China and Canada, and has served in large State-owned enterprises, United States-based corporations and renowned global enterprises in Mainland China and Hong Kong for over 20 years. Since 2002, he has dedicated himself to urban public utilities with a focus on water affairs, as well as the investment, management and operation of infrastructure projects. Since 2004, he has been a director of Shenzhen Bus Group Co., Ltd.. Mr. Li also serves as a member of the Standing Committee of the All-China Youth Federation, a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference, the honorary chairman of the Hong Kong Volunteers Association. He joined the Group in 2015.

#### Non-executive Directors

**Mr. Zhao Hai Hu**, aged 62, was graduated from Zhejiang University with a master degree in Engineering. He was a general manager of an irrigation technology company which was engaged in the research and development of irrigation and hydroelectric technology. Mr. Zhao was primarily responsible for project management, research and development of irrigation and water supply. Mr. Zhao acted as an assistant to the head of North China College of Water Conservancy and Hydro Power. He was also the head of the infra-structure department and the head of the personnel department. Mr. Zhao has over 28 years' experience in engineering. He joined the Group in 2003.

## Directors' and Senior Management Biographical Details

**Mr. Zhou Wen Zhi**, aged 76, was graduated from Liaoning Agriculture University. He was the vice minister of The Ministry of Water Resources of the PRC from 1991 until his retirement in June 2001. Mr. Zhou has over 12 years' experience in the development and construction of the PRC water resources. He joined the Group in 2004.

**Mr. Makoto Inoue**, aged 64, was graduated from Chuo University in Japan with a Bachelor of Law in 1975. Mr. Makoto joined ORIX Corporation, a company listed on the Tokyo Stock Exchange, Osaka Securities Exchange and New York Stock Exchange, in 1975, where he is currently a director, representative executive officer, and the president and chief executive officer. He has over 40 years of experience in leasing and finance, investment banking, and alternative investment in a global context. Currently, he is also the non-executive director of Haichang Ocean Park Holdings Ltd. (stock code: 2255), a company listed on the main board of the Stock Exchange. He joined the Group in 2012.

**Ms. Wang Xiaoqin**, aged 44, was graduated from the Shenzhen University majoring in International Finance, and received a Master Degree in Business Administration from the University of Ballarat in Australia. She has held senior management position in finance and technology companies, and has extensive experience in such fields. She joined the Group in 2004.

### Independent Non-executive Directors

**Mr. Chau Kam Wing**, aged 54, has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed in Hong Kong. Mr. Chau obtained a Master Degree in Business Administration from the University of San Francisco, United States 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) and an independent non-executive director of Carpenter Tan Holdings Limited (stock code: 837), which are both listed on the main board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Ching Lee Holdings Limited (stock code: 8318), Eco-Tek Holdings Limited (stock code: 8169) and Zhejiang Chang'an Renheng Technology Co., Ltd. (stock code: 8139), which are 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. Ong King Keung**, aged 41, is the company secretary of a company whose shares are listed on the mainboard of the Stock Exchange. He has over 17 years of experience in the auditing and accounting industry. He holds a bachelor's degree in Accountancy from The Hong Kong Polytechnic University and master degree in Corporate Finance from the City University of Hong Kong. He has been a fellow member of the Association of Chartered Certified Accountants since October 2007 and a fellow member of the Hong Kong Institute of Certified Public Accountants since June 2010. Mr. Ong is currently an independent non-executive director of another two companies listed on the main board and three companies listed on the GEM of the Stock Exchange, namely Tech Pro Technology Development Limited (stock code: 3823), Risecomm Group Holdings Limited (stock code: 1679), Bingo Group Holdings Limited (stock code: 8220), China Candy Holdings Limited (stock code: 8182) and Koala Financial Group Limited ("formerly known as Sunrise (China) Technology Group Limited") (stock code: 8226). Mr. Ong had also been an independent non-executive director of Deson Construction International Holdings Limited (stock code: 8268), which is the company listed on the GEM of the Stock Exchange, since December 2014 and has been subsequently redesignated as a non-executive director since December 2015. Mr. Ong was also an independent non-executive director of China Environmental Energy Investment Limited (stock code: 986), which is a company listed on the Main Board of the Stock Exchange and resigned in August 2014. He joined the Group in 2007. He is also a member of the audit committee and remuneration committee of the Company.

## Directors' and Senior Management Biographical Details

**Mr. Siu Chi Ming**, aged 36, holds a Bachelor of Business Administration (Accounting) from Hong Kong Baptist University. He is a member of the Association of Chartered Certified Accountants and an associate of Hong Kong Institute of Chartered Secretaries as well as the Institute of Chartered Secretaries and Administrators. Mr. Siu is the executive director and company secretary of Jiu Rong Holdings Limited, which is listed on the main board of the Stock Exchange (stock code: 2358). 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 45, graduated from Inner Mongolia Finance and Economics College with a bachelor degree in accounting. She has over 15 years experience in the securities industry in the PRC and was a senior manager at the investment banking department of China Investment Securities Limited Liability Company. She joined the Group in 2017.

### SENIOR MANAGEMENT

**Mr. Lie Chi Wing, Aston**, aged 39, 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 Carnival Group International Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 996). He joined the Group in 2010.

**Mr. Liu Yong**, aged 47, is the general manager of the Group. Mr. Liu was graduated from the Southeast University in 1991, majoring in detection technology and instrument of the Department of Automatic Control. He studied water supply and drainage in the Southeast Jiao Tong University from 1993 to 1994 and was awarded the qualification of senior water supply and drainage engineer in 2004. He obtained the PRC Certified Asset Appraiser Qualification Certificate in 1997. Mr. Liu has over 15 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 2017, 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 2 September 2016 due to their other business commitments.

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

## Corporate Governance Report

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code throughout the year ended 31 March 2017 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

### BOARD AND BOARD COMMITTEES

As at 31 March 2017, the Board consisted of twelve Directors: comprising four executive Directors, namely Mr. Duan Chuan Liang (Chairman), Ms. Ding Bin, Ms. Liu Yu Jie and Mr. Li Zhong; four non-executive Directors, Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi, Mr. Makoto Inoue and Ms. Wang Xiaoqin; and four independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Ong King Keung, Mr. Siu Chi Ming and Ms. Ho Ping. Three of the independent non-executive Directors, namely Mr. Chau Kam Wing, Mr. Ong King Keung 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 and reviews the financial and internal control system. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. The Board members have no financial, business, family or other material/relevant relationships with each other. Given the composition of the Board and the skills, knowledge and expertise of the Director, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has appropriate balance of expertise, skills and experience to continue the effective oversee of the business of the Company. Details of the experience and qualifications of Directors and senior management of the Company are set out in the section headed "Directors' and Senior Management Biographical Details" in this annual report.

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

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

## Corporate Governance Report

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

### **Audit Committee**

The Audit Committee comprises wholly independent non-executive Directors.

#### ***Members of the Audit Committee***

Mr. Chau Kam Wing (*Chairman*)

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping

Main functions of the Audit Committee are:

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

The Audit Committee is provided with sufficient resources to discharge its responsibilities. For the year ended 31 March 2017, the Audit Committee held three meetings which included the review of the final results for the year ended 31 March 2016, the interim accounts for the six months ended 30 September 2016 and the risk management and internal control system of the Group, and the change of external auditor 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. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping

## Corporate Governance Report

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

For the year ended 31 March 2017, two meetings were held by the Remuneration Committee which reviewed the remuneration packages of the Directors and senior management.

### **Remuneration of Directors and Senior Management**

Particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 13 to the consolidated financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 March 2017 is set out below:

	<b>Number of Individuals</b>
HK\$2,000,001 – HK\$2,500,000	1
HK\$3,000,001 – HK\$3,500,000	1

### **Nomination Committee**

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

#### **Members of the Nomination Committee**

Mr. Duan Chuan Liang (*Chairman*)  
 Mr. Chau Kam Wing  
 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.

For the year ended 31 March 2017, the Nomination Committee held two meetings to review the composition of the Board, to assess the independence of independent non-executive Directors and to make recommendations to the Board on the appointment and re-appointment of Directors taking into account their experience and qualifications.

## Corporate Governance Report

The individual attendance record of the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings and general meetings attended by each Director during the year ended 31 March 2017 are set out in the following table.

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

### Notes:

- Ms. Ho Ping is appointed as an independent non-executive director on 8 February 2017. Her attendance is presented by reference to the number of relevant meetings held during her tenure.
- Ms. Liu Dong resigned as an independent non-executive director on 8 February 2017. Her attendance is presented by reference to the number of relevant meetings held during her 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. 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 2017, 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 2017.

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 2017, 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 2017.

### RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors are responsible for the preparation of accounts for each financial year with a view to ensuring such accounts give a true and fair view of the state of affairs of the Company and of the Group and the results and cash flow of the Group for the year. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are appropriate and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

A statement by the auditor about their reporting responsibilities is set out on pages 35 to 42 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

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

# Corporate Governance Report

## Management

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

## Internal Audit Team

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

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

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

## HANDLING INSIDE INFORMATION

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

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



## Corporate Governance Report

### AUDITOR'S REMUNERATION

PricewaterhouseCoopers ("PwC") was appointed as auditor of the Company in the annual general meeting on 2 September 2016. The remuneration payable by the Company to its auditor, PwC, for the year ended 31 March 2017 amounted to HK\$6,230,000. HK\$3,060,000 was paid for other non-audit services provided by PwC to the Company and its subsidiaries during the year ended 31 March 2017.

### 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](http://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](mailto:info@chinawatergroup.com) or making phone calls to our investor relations team at +852 3968 6666. In addition, the Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

During the year ended 31 March 2017, there had not been any changes in the Company's constitutional documents.

## 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 2017.

### 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 44 to the consolidated financial statements.

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

### FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 168 of this annual report.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2017 and its financial position at that date are set out in the financial statements on pages 43 to 165. The Directors recommended a final dividend of HK6 cents (2016: HK5 cents) per ordinary share and a special final dividend of HK10 cents (2016: Nil) per ordinary share, which are subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 1 September 2017 and will be payable on or about Friday, 22 September 2017 to the shareholders whose names appear on the register of members on Friday, 8 September 2017.

### CLOSURE OF REGISTER OF MEMBERS

#### For Annual General Meeting

The register of members will be closed from Tuesday, 29 August 2017 to Friday, 1 September 2017 (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, 1 September 2017, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 28 August 2017.

#### For Entitlement to Proposed Final and Special Final Dividends

The register of members will be closed from Thursday, 7 September 2017 to Friday, 8 September 2017, during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final and special final dividends, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 6 September 2017. Subject to the approval by shareholders of the Company at the forthcoming annual general meeting, the proposed final and special final dividends will be paid on or around Friday, 22 September 2017.

## Directors' Report

### KEY RISKS AND UNCERTAINTIES

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

#### (i) Operational risk

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

#### (ii) Liquidity risk

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

#### (iii) Legal and regulatory compliance risk

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

## Directors' Report

### ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

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

#### **The Group carries out process upgrade**

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

#### **The Group reduces pipeline leakage and enhance water supply efficiency**

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

#### **The Group increases the use of clean energy**

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

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

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

### COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 17 to the consolidated financial statements, respectively. Further details of the Group's investment properties are set out on page 166.

## Directors' Report

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 36 and 37 to the consolidated financial statements, respectively.

### ISSUE OF SENIOR NOTES

On 25 January 2017, the Company and certain existing subsidiaries of the Company which provided guarantee, entered into a purchase agreement with Morgan Stanley & Co. International plc in connection with the issue of US\$300 million 5.25% senior notes due February 2022. The Company intended to use the net proceeds from the notes issue in the Company's ordinary course of business for general corporate purposes, including but not limited to for financing working capital and repayment of certain indebtedness.

### 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 2017 and subsequent to the reporting date and up to the date of this annual report, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares repurchased	Highest price per share HK\$	Lowest price per share HK\$	Aggregate consideration (excluding expenses) HK\$
April 2016	1,002,000	3.84	3.37	3,648,000
May 2016	7,158,000	4.01	3.83	28,196,000
June 2016	570,000	4.42	4.19	2,442,000
July 2016	6,246,000	4.79	4.51	29,330,000
August 2016	4,410,000	5.00	4.61	21,402,000
September 2016	4,580,000	5.01	4.71	21,968,000
October 2016	1,652,000	5.92	5.06	9,259,000
December 2016	992,000	5.05	4.70	4,786,000
April 2017	3,282,000	5.22	5.05	16,902,000
May 2017	5,384,000	5.25	4.99	27,503,000

During the year ended 31 March 2017, the Company repurchased and cancelled a total of 26,610,000 ordinary shares of HK\$0.01 each in the capital of the Company. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

Subsequent to the reporting date and up to the date of this annual report, the Company repurchased a total of 8,666,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$44,405,000. Those repurchased shares were not cancelled as at the date of this annual report.

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

## Directors' Report

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

### RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in notes 43 and 38 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 43 to the consolidated financial statements. The Company's reserves available for distribution to members at 31 March 2017 amounted to HK\$509,266,000 (2016: HK\$725,474,000) which comprised contributed surplus of HK\$498,920,000 (2016: HK\$800,392,000) and surplus of HK\$10,346,000 (2016: deficit of HK\$74,918,000).

### 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 OTHER PARTIES

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

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

### DIRECTORS

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

#### Executive Directors

Mr. Duan Chuan Liang (*Chairman*)  
Ms. Ding Bin  
Ms. Liu Yu Jie  
Mr. Li Zhong

#### Non-executive Directors

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

#### Independent Non-executive Directors

Mr. Chau Kam Wing  
Mr. Ong King Keung  
Mr. Siu Chi Ming  
Ms. Ho Ping (appointed on 8 February 2017)  
Ms. Liu Dong (resigned on 8 February 2017)

## Directors' Report

In accordance with the Company's Bye-laws, Mr. Zhao Hai Hu, Mr. Makoto Inoue, Mr. Chau Kam Wing and Ms. Ho Ping will retire at the forthcoming annual general meeting and all of them being eligible, will offer themselves for re-election. Apart from Mr. Duan Chuan Liang, all the other Directors of the Company, including the independent non-executive Directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's Bye-laws.

The biographical details of Directors and senior management are set out on pages 13 to 15.

### DIRECTORS' SERVICE CONTRACTS

As at 31 March 2017, 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 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO") which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

#### (a) Shares

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note (i))	Corporate and personal	401,120,301	–	26.44%
Ms. Ding Bin	Personal	500,000	–	0.03%
Ms. Liu Yu Jie	Personal	8,354,000	–	0.55%
Mr. Li Zhong (Note (ii))	Personal	29,527,457	–	1.95%
Mr. Zhao Hai Hu	Personal	1,806,000	–	0.12%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%
Ms. Wang Xiaoqin	Personal	6,660,000	–	0.44%
Ms. Ho Ping	Personal	978,000	–	0.06%

## Directors' Report

### Notes:

- (i) These 401,120,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 183,076,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) These 29,527,457 shares consist of 320,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.

### (b) Underlying Shares

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in the Company
		Long position (Note)	Short position	
Mr. Duan Chuan Liang	Personal	68,000,000	–	4.48%
Ms. Ding Bin	Personal	5,000,000	–	0.33%
Ms. Liu Yu Jie	Personal	3,000,000	–	0.20%
Mr. Li Zhong	Personal	8,000,000	–	0.53%
Mr. Zhao Hai Hu	Personal	2,500,000	–	0.16%
Mr. Zhou Wen Zhi	Personal	1,000,000	–	0.07%
Ms. Wang Xiaoqin	Personal	2,000,000	–	0.13%

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

### SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 37 to the consolidated financial statements. Pursuant to the share option scheme adopted by the Company on 7 September 2012, certain Directors were granted share options. As at 31 March 2017, the interests of the Directors of the Company in options to subscribe for shares in the capital of the Company under the share option scheme were as follows:

Name of Director	Date of grant	Number of share issuable upon exercise of options held as at 31 March 2017	Price per share	Approximate percentage of shareholding %
			to be paid on exercise of options HK\$	
Mr. Duan Chuan Liang	3 October 2014	68,000,000	3.60	4.48%
Ms. Ding Bin	3 October 2014	5,000,000	3.50	0.33%
Ms. Liu Yu Jie	3 October 2014	3,000,000	3.50	0.20%
Mr. Li Zhong	9 September 2015	8,000,000	3.50	0.53%
Mr. Zhao Hai Hu	3 October 2014	2,500,000	3.50	0.16%
Mr. Zhou Wen Zhi	3 October 2014	1,000,000	3.50	0.07%
Ms. Wang Xiaoqin	3 October 2014	2,000,000	3.50	0.13%



## Directors' Report

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

### **DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SECURITIES**

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

### **EQUITY-LINKED AGREEMENTS**

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

### **EMOLUMENT POLICY**

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

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

The Company adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme is set out in note 37 to the consolidated financial statements.

### **SUBSTANTIAL SHAREHOLDERS**

At 31 March 2017, 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.

## Directors' Report

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 (Note i)	Beneficial	401,120,301	-	-	26.44%	-	-
Asset Full Resources Limited (Note ii)	Beneficial	218,044,301	-	-	14.37%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	19.19%	-	-

Note (i): Long positions in the underlying shares at 31 March 2017 is disclosed in the section headed "Share Option Scheme".

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

Save as disclosed above, as at 31 March 2017, 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.

### 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 2017.

### CONNECTED TRANSACTION

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

### RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 42 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 2017.

## Directors' Report

### IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

There was no significant event took place subsequent to 31 March 2017.

### CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 16 to 24.

### AUDITOR

The financial statements of the Company in respect of the previous two financial years were audited by BDO Limited. For the purpose of maintaining good corporate governance, PricewaterhouseCoopers was appointed as auditor of the Company in the annual general meeting on 2 September 2016. The financial statements of the Company for the year ended 31 March 2017 were audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

**Duan Chuan Liang**

*Chairman*

Hong Kong, 29 June 2017

# Independent Auditor's Report



羅兵咸永道

## TO THE SHAREHOLDERS OF CHINA WATER AFFAIRS GROUP LIMITED

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

### OPINION

#### What we have audited

The consolidated financial statements of China Water Affairs Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 165, which comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

#### Independence

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

## Independent Auditor's Report

### KEY AUDIT MATTERS

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

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

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

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter</b>
<p><b>1. Accounting for the service concession arrangements</b></p> <p><i>Refer to notes 2.16, 5, 15, 21 and 45 to the consolidated financial statements</i></p> <p>(a) Applicability of HK(IFRIC) Interpretation 12 – Service Concession Arrangements (“HK(IFRIC) Int. 12”) and accounting for the prior year adjustments</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 2017, management has reassessed these service concession agreements as to whether the conditions under HK(IFRIC) Int. 12 were fulfilled such that the service concession arrangements should be accounted for in accordance with HK(IFRIC) Int. 12.</p>	<p>Our procedures in relation to management’s accounting for the service concession arrangements included:</p> <ul style="list-style-type: none"> <li>• Evaluating whether the service concession arrangements fulfill the conditions under HK(IFRIC) Int. 12 by: <ul style="list-style-type: none"> <li>• Reading the concession agreements and other relevant documents of the Group’s water supply business;</li> <li>• 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;</li> <li>• Evaluating the opinion from the independent PRC legal adviser appointed by management on the terms of the concession agreements and other relevant documents in connection with the Group’s water supply business and the relevant laws and regulations in the PRC; and</li> </ul> </li> </ul>

## Independent Auditor's Report

### Key Audit Matter

The relevant documents governing certain of these service concession arrangements do not stipulate whether the Group or the grantors control the residual interests in the water supply infrastructures at the end of the service concession period. Management has to exercise significant judgement based on their interpretation of the concession agreements, opinion from the independent legal adviser and market practice for accounting for similar concession arrangements in the water supply industry in the PRC to determine whether HK(IFRIC) Int. 12 is applicable.

As a result of the reassessment, management concluded that the conditions of HK(IFRIC) Int. 12 were fulfilled and that service concession arrangements should be accounted for in accordance with HK(IFRIC) Int. 12. As a result, prior year adjustments were made.

Details of the prior year adjustments are disclosed in note 45 to the consolidated financial statements.

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

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

The market rate of gross margin was determined based on the research and analysis conducted by an independent professional valuer, with reference to the gross profit margins of market comparable companies.

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 and the relevant professional parties. Significant effort is required in auditing these areas.

### How our audit addressed the Key Audit Matter

- Evaluating management's research on the market practice for accounting of similar service concession arrangements of water supply industry in the PRC.
- Evaluating management's quantification of the prior year adjustments and checked the mathematical accuracy;
- Involving our internal valuation specialists and assessing the reasonableness of the market rate of gross margin adopted by management by evaluating the research and analysis conducted by the independent professional valuer;
- Evaluating the competence, capabilities and objectivity of the independent PRC legal adviser and professional valuer; and
- Evaluating the appropriateness of the disclosures made in the consolidated financial statements relating to the accounting treatment of the service concession arrangements and the prior year adjustments.

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 assessment of other intangible assets and goodwill

Refer to notes 2.9, 2.10, 20 and 21 to the consolidated financial statements

As at 31 March 2017, the carrying amounts of other intangible assets and goodwill amounted to HK\$9,629.8 million and HK\$686.4 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 and when there is an indication of impairment.

The Group's other intangible assets mainly relate to its city water supply operations. During the year ended 31 March 2017, management considered that no impairment indication existed for the Group's other intangible assets with reference to the financial performance of the respective entities as compare to their business plans. Therefore no impairment assessments were being performed.

The Group's goodwill mainly relates to its city water supply and sewage treatment and drainage operations. Management determined the recoverable amounts of the cash-generating unit carrying the goodwill 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 tariff and sewage charges, raw water and electricity costs and discount rates, etc.

Based on the results of the impairment assessments, management concluded that there was no impairment of the Group's goodwill as at 31 March 2017.

### How our audit addressed the Key Audit Matter

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

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

Our procedures in relation to management's impairment assessments of goodwill included:

- Assessing the reasonableness of the key assumptions of the value-in-use calculations by:
  - Comparing the forecast against current year business result to assess if there is any inconsistency in the revenue and costs structure;
  - Evaluating the future business growth with reference to the town and population planning published by the corresponding county or city government and the capacity expansion plan of the related project; and
  - Evaluating the forecast city water tariff, sewage charges, raw water 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 assessment of goodwill required the use of significant judgements and estimates from management, we considered them as a key audit matters.

### How our audit addressed the Key Audit Matter

- Involving our internal valuation specialists and assessing the appropriateness of the valuation methodologies and the discount rates used to estimate the value-in-use by reference to the market comparable companies;
- 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 goodwill to be supportable by available evidence.



## Independent Auditor's Report

### OTHER INFORMATION

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

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

## Independent Auditor's Report

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

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

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

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

## Independent Auditor's Report

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

The engagement partner on the audit resulting in this independent auditor's report is Chu Ho Kwan.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 29 June 2017

# Consolidated Income Statement

For the year ended 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Revenue</b>	6	<b>5,707,895</b>	4,739,902
Cost of sales		<b>(3,222,990)</b>	(2,641,967)
<b>Gross profit</b>		<b>2,484,905</b>	2,097,935
Other income	6	<b>242,448</b>	300,661
Selling and distribution costs		<b>(160,006)</b>	(123,257)
Administrative expenses		<b>(604,201)</b>	(571,757)
Other operating expenses		<b>(16,501)</b>	(27,506)
Equity-settled share options expenses		<b>(13,983)</b>	(47,982)
Fair value gain on investment properties	17	<b>316,457</b>	52,900
Fair value (loss)/gain on financial assets at fair value through profit or loss		<b>(225)</b>	8
Change in fair value of derivative financial assets		<b>(21,706)</b>	(32,948)
Loss on repurchase/redemption of convertible bonds		<b>–</b>	(33)
Gain/(loss) on disposal of subsidiaries	40	<b>43,905</b>	(1,488)
<b>Operating profit</b>	8	<b>2,271,093</b>	1,646,533
Finance costs	9	<b>(251,154)</b>	(170,824)
Share of results of associates		<b>(57,314)</b>	29,517
<b>Profit before income tax</b>		<b>1,962,625</b>	1,505,226
Income tax expense	10	<b>(583,279)</b>	(405,374)
<b>Profit for the year</b>		<b>1,379,346</b>	1,099,852
<b>Profit for the year attributable to:</b>			
Owners of the Company		<b>853,634</b>	608,112
Non-controlling interests		<b>525,712</b>	491,740
		<b>1,379,346</b>	1,099,852
<b>Earnings per share for profit attributable to owners of the Company during the year</b>		<b>HK cents</b>	HK cents
Basic		<b>56.72</b>	40.31
Diluted		<b>55.39</b>	40.14

The notes on pages 52 to 165 are an integral part to these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Profit for the year</b>		<b>1,379,346</b>	1,099,852
<b>Other comprehensive income</b>			
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>			
– Change in fair value of available-for-sale financial assets	19	<b>5,208</b>	6,823
– Currency translation		<b>(598,314)</b>	(190,065)
– Share of other comprehensive income of associates		<b>17,410</b>	(45,342)
– Recycling of currency translation differences upon disposal of subsidiaries		<b>23,679</b>	173
<b>Other comprehensive loss for the year, net of tax</b>		<b>(552,017)</b>	(228,411)
<b>Total comprehensive income for the year</b>		<b>827,329</b>	871,441
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>514,274</b>	438,289
Non-controlling interests		<b>313,055</b>	433,152
		<b>827,329</b>	871,441

The notes on pages 52 to 165 are an integral part to these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 March 2017

	Notes	31 March 2017 HK\$'000	31 March 2016 HK\$'000 (Restated)	1 April 2015 HK\$'000 (Restated)
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	15	1,126,821	589,755	618,155
Prepaid land lease payments	16	733,783	555,104	466,873
Investment properties	17	1,172,637	908,346	742,305
Interests in associates	18	635,473	1,333,517	1,363,334
Available-for-sale financial assets	19	339,894	226,767	163,875
Goodwill	20	686,427	663,668	239,212
Other intangible assets	21	9,629,813	8,041,454	6,526,120
Prepayments, deposits and other receivables	22	624,302	145,790	269,759
Receivables under service concession arrangements	27	740,199	540,740	349,401
		<b>15,689,349</b>	<b>13,005,141</b>	<b>10,739,034</b>
<b>Current assets</b>				
Properties under development	23	690,083	523,551	432,695
Properties held for sale	24	288,694	273,302	242,945
Inventories	25	284,853	288,606	301,217
Trade and bills receivables	26	871,891	1,083,551	655,776
Receivables under service concession arrangements	27	36,783	29,765	14,748
Financial assets at fair value through profit or loss	28	224,738	879	77,380
Due from non-controlling equity holders of subsidiaries	33	250,582	307,572	541,602
Due from associates	18	409,091	402,855	214,301
Prepayments, deposits and other receivables	22	1,743,357	970,239	925,290
Derivative financial assets	19(i)	45,298	67,004	99,952
Pledged deposits	29	783,013	466,762	329,925
Cash and cash equivalents	29	4,313,977	2,551,836	1,500,748
		<b>9,942,360</b>	<b>6,965,922</b>	<b>5,336,579</b>
<b>Current liabilities</b>				
Trade and bills payables	30	1,097,051	855,236	486,361
Accrued liabilities, deposits received and other payables	31	2,101,605	1,781,646	1,648,225
Due to associates	18	34,289	49,772	95,158
Borrowings	32	3,205,875	2,155,788	2,347,068
Due to non-controlling equity holders of subsidiaries	33	290,634	190,382	211,562
Provision for tax		662,899	524,147	393,869
Convertible bonds		–	–	28,969
Derivative financial liabilities		–	–	2,987
		<b>7,392,353</b>	<b>5,556,971</b>	<b>5,214,199</b>
<b>Net current assets</b>		<b>2,550,007</b>	<b>1,408,951</b>	<b>122,380</b>
<b>Total assets less current liabilities</b>		<b>18,239,356</b>	<b>14,414,092</b>	<b>10,861,414</b>

# Consolidated Statement of Financial Position

As at 31 March 2017

	Notes	31 March 2017 HK\$'000	31 March 2016 HK\$'000 (Restated)	1 April 2015 HK\$'000 (Restated)
<b>Non-current liabilities</b>				
Borrowings	32	<b>8,123,092</b>	5,076,242	3,024,468
Deposits received	31	<b>231,844</b>	192,415	107,451
Due to associates	18	<b>12,396</b>	11,951	–
Due to non-controlling equity holders of subsidiaries	33	<b>32,183</b>	17,073	–
Deferred government grants	34	<b>145,412</b>	99,809	78,701
Deferred tax liabilities	35	<b>731,496</b>	570,160	438,088
		<b>9,276,423</b>	5,967,650	3,648,708
<b>Net assets</b>				
		<b>8,962,933</b>	8,446,442	7,212,706
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital	36	<b>15,171</b>	15,199	14,447
Reserves	38	<b>5,600,133</b>	5,248,173	4,523,527
		<b>5,615,304</b>	5,263,372	4,537,974
<b>Non-controlling interests</b>				
		<b>3,347,629</b>	3,183,070	2,674,732
<b>Total equity</b>				
		<b>8,962,933</b>	8,446,442	7,212,706

The consolidated financial statements on pages 43 to 165 were approved and authorised for issue by the board of directors on 29 June 2017 and are signed on its behalf by:

**Duan Chuan Liang**

*Director*

**Ding Bin**

*Director*

The notes on pages 52 to 165 are an integral part to these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

Equity attributable to owners of the Company

	Share capital HK\$'000	Proposed final dividend HK\$'000	Share premium account HK\$'000 (note 38)	Capital redemption reserve HK\$'000 (note 38)	Contributed surplus HK\$'000 (note 38)	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000 (note 38)	Other reserves HK\$'000 (note 38)	Available-for-sale financial assets revaluation reserve HK\$'000	Statutory reserves HK\$'000 (note 38)	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>At 1 April 2015</b>														
As previously reported	14,447	57,787	429,790	2,559	924,988	343,790	48,667	(385,954)	11,065	220,908	2,255,379	3,923,426	2,512,715	6,436,141
Prior year adjustments (note 45)	-	-	-	-	-	20,105	-	-	-	-	594,443	614,548	162,017	776,565
<b>At 1 April 2015, as restated</b>	<b>14,447</b>	<b>57,787</b>	<b>429,790</b>	<b>2,559</b>	<b>924,988</b>	<b>363,895</b>	<b>48,667</b>	<b>(385,954)</b>	<b>11,065</b>	<b>220,908</b>	<b>2,849,822</b>	<b>4,537,974</b>	<b>2,674,732</b>	<b>7,212,706</b>
Subscription of new shares (note 36)	369	-	154,641	-	-	-	-	-	-	-	-	155,010	-	155,010
Shares issued in respect of conversion of convertible bonds	91	-	30,512	-	-	-	-	-	-	-	-	30,603	-	30,603
Share issuance expenses	-	-	(5,527)	-	-	-	-	-	-	-	-	(5,527)	-	(5,527)
Arising from acquisition of subsidiaries	292	-	123,840	-	-	-	-	-	-	-	-	124,132	159,266	283,398
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(4,387)	(4,387)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	(2,815)	-	-	-	(2,815)	34,056	31,241
Equity settled share options expenses (note 37)	-	-	-	-	-	-	47,982	-	-	-	-	47,982	-	47,982
Final dividend 2015 (note 12)	-	(57,787)	-	-	(3,007)	-	-	-	-	-	-	(60,794)	-	(60,794)
Interim dividend 2016 (note 12)	-	-	-	-	(45,596)	-	-	-	-	-	-	(45,596)	-	(45,596)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(113,749)	(113,749)
<b>Transactions with owners</b>	<b>752</b>	<b>(57,787)</b>	<b>303,466</b>	<b>-</b>	<b>(48,603)</b>	<b>-</b>	<b>47,982</b>	<b>(2,815)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>242,995</b>	<b>75,186</b>	<b>318,181</b>
<b>Proposed final dividend 2016 (note 12)</b>	<b>-</b>	<b>75,993</b>	<b>-</b>	<b>-</b>	<b>(75,993)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transfer to statutory reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,348</b>	<b>(58,348)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Share of associates' reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,708</b>	<b>19,406</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,114</b>	<b>-</b>	<b>44,114</b>
Profit for the year	-	-	-	-	-	-	-	-	-	-	608,112	608,112	491,740	1,099,852
Other comprehensive income														
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	6,823	-	-	6,823	-	6,823
- Currency translation	-	-	-	-	-	(131,477)	-	-	-	-	-	(131,477)	(58,588)	(190,065)
- Share of other comprehensive income of associates	-	-	-	-	-	(45,342)	-	-	-	-	-	(45,342)	-	(45,342)
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	173	-	-	-	-	-	173	-	173
<b>Total comprehensive (loss)/ income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(176,646)</b>	<b>-</b>	<b>-</b>	<b>6,823</b>	<b>-</b>	<b>608,112</b>	<b>438,289</b>	<b>433,152</b>	<b>871,441</b>
<b>Balance at 31 March 2016 (Restated)</b>	<b>15,199</b>	<b>75,993</b>	<b>733,256</b>	<b>2,559</b>	<b>800,392</b>	<b>187,249</b>	<b>121,357</b>	<b>(369,363)</b>	<b>17,888</b>	<b>279,256</b>	<b>3,399,586</b>	<b>5,263,372</b>	<b>3,183,070</b>	<b>8,446,442</b>



# Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Equity attributable to owners of the Company													Total equity HK\$'000
	Share capital HK\$'000	Proposed final dividend HK\$'000	Share premium account HK\$'000 (note 38)	Capital redemption reserve HK\$'000 (note 38)	Contributed surplus HK\$'000 (note 38)	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000 (note 38)	Other reserves HK\$'000 (note 38)	Available- for-sale financial assets revaluation reserve HK\$'000	Statutory reserves HK\$'000 (note 38)	Retained earnings HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	
<b>At 1 April 2016</b>														
As previously reported	15,199	75,993	733,256	2,559	800,392	178,798	121,357	(369,363)	17,888	279,256	2,748,789	4,604,124	2,983,260	7,587,384
Prior year adjustments (note 45)	-	-	-	-	-	8,451	-	-	-	-	650,797	659,248	199,810	859,058
<b>At 1 April 2016, as restated</b>	<b>15,199</b>	<b>75,993</b>	<b>733,256</b>	<b>2,559</b>	<b>800,392</b>	<b>187,249</b>	<b>121,357</b>	<b>(369,363)</b>	<b>17,888</b>	<b>279,256</b>	<b>3,399,586</b>	<b>5,263,372</b>	<b>3,183,070</b>	<b>8,446,442</b>
Share options exercised (note 36)	238	-	83,262	-	-	-	-	-	-	-	-	83,500	-	83,500
Share repurchase (note 36)	(266)	-	(120,765)	-	-	-	-	-	-	-	-	(121,031)	-	(121,031)
Share repurchase expense	-	-	(571)	-	-	-	-	-	-	-	-	(571)	-	(571)
Arising from acquisition of subsidiaries (note 39)	-	-	-	-	-	-	-	-	-	-	-	-	27,005	27,005
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	34,568	-	-	-	34,568	(65,498)	(30,930)
Disposal of subsidiaries (note 40)	-	-	-	-	-	-	-	634	-	(5,265)	4,631	-	(144,382)	(144,382)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	106,232	106,232
Equity settled share options expenses (note 37)	-	-	-	-	-	-	13,983	-	-	-	-	13,983	-	13,983
Final dividend 2016 (note 12)	-	(75,993)	-	-	1,045	-	-	-	-	-	-	(74,948)	-	(74,948)
Interim dividend 2017 (note 12)	-	-	-	-	(59,789)	-	-	-	-	-	-	(59,789)	-	(59,789)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(71,853)	(71,853)
<b>Transactions with owners</b>	<b>(28)</b>	<b>(75,993)</b>	<b>(38,074)</b>	<b>-</b>	<b>(58,744)</b>	<b>-</b>	<b>13,983</b>	<b>35,202</b>	<b>-</b>	<b>(5,265)</b>	<b>4,631</b>	<b>(124,288)</b>	<b>(148,496)</b>	<b>(272,784)</b>
<b>Proposed final and special final dividends 2017 (note 12)</b>	<b>-</b>	<b>242,728</b>	<b>-</b>	<b>-</b>	<b>(242,728)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transfer to capital redemption reserve (note 36)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>266</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(266)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transfer to statutory reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,291</b>	<b>(43,291)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Share of associates' reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(39,124)</b>	<b>(9,661)</b>	<b>10,731</b>	<b>-</b>	<b>-</b>	<b>(38,054)</b>	<b>-</b>	<b>(38,054)</b>
Profit for the year	-	-	-	-	-	-	-	-	-	-	853,634	853,634	525,712	1,379,346
Other comprehensive income														
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	5,208	-	-	5,208	-	5,208
- Currency translation	-	-	-	-	-	(385,657)	-	-	-	-	-	(385,657)	(212,657)	(598,314)
- Share of other comprehensive income of associates	-	-	-	-	-	17,410	-	-	-	-	-	17,410	-	17,410
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	23,679	-	-	-	-	-	23,679	-	23,679
<b>Total comprehensive (loss)/ income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(344,568)</b>	<b>-</b>	<b>-</b>	<b>5,208</b>	<b>-</b>	<b>853,634</b>	<b>514,274</b>	<b>313,055</b>	<b>827,329</b>
<b>Balance at 31 March 2017</b>	<b>15,171</b>	<b>242,728</b>	<b>695,182</b>	<b>2,825</b>	<b>498,920</b>	<b>(157,319)</b>	<b>96,216</b>	<b>(343,822)</b>	<b>33,827</b>	<b>317,282</b>	<b>4,214,294</b>	<b>5,615,304</b>	<b>3,347,629</b>	<b>8,962,933</b>

The notes on pages 52 to 165 are an integral part to these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>1,962,625</b>	1,505,226
Adjustments for:			
Finance costs	9	<b>251,154</b>	170,824
Share of results of associates		<b>57,314</b>	(29,517)
Interest income	6	<b>(122,704)</b>	(98,445)
Dividend income from financial assets	6	<b>(7,631)</b>	(17,432)
Amortisation of deferred government grants	6	<b>(4,200)</b>	(5,217)
Depreciation	8	<b>44,653</b>	45,355
Amortisation of prepaid land lease payments	8	<b>14,734</b>	17,552
Amortisation of other intangible assets	8	<b>271,457</b>	227,148
Amortisation of capitalised expenses		<b>48,495</b>	19,186
(Gain)/loss on disposal of property, plant and equipment	8	<b>(739)</b>	1,773
Gain on disposal of prepaid land lease payments	8	–	(30,728)
Gain on early termination of a service concession arrangement		–	(29,364)
Property, plant and equipment written off	8	<b>467</b>	9,811
(Reversal of provision)/provision of doubtful debts	8	<b>(737)</b>	5,584
Fair value gain on investment properties		<b>(316,457)</b>	(52,900)
(Gain)/loss on disposal of subsidiaries	40	<b>(43,905)</b>	1,488
Excess over the cost of business combination recognised in profit or loss	39(c)	<b>(21,365)</b>	–
Fair value loss/(gain) on financial assets at fair value through profit or loss		<b>225</b>	(8)
Change in fair value of derivative financial assets		<b>21,706</b>	32,948
Construction margin for construction and upgrade services in relation to water supply and sewage treatment infrastructure		<b>(217,206)</b>	(136,819)
Loss on repurchase/redemption of convertible bonds		–	33
Equity-settled share options expenses		<b>13,983</b>	47,982
Operating profit before working capital changes		<b>1,951,869</b>	1,684,480
Increase in properties under development		<b>(196,313)</b>	(101,495)
Increase in properties held for sale		<b>(31,099)</b>	(36,283)
(Increase)/decrease in inventories		<b>(5,437)</b>	22,952
Increase in trade and bills receivables		<b>(214,675)</b>	(353,057)
Increase in receivables under service concession arrangement		<b>(201,654)</b>	(31,370)
Decrease in amounts due from non-controlling equity holders of subsidiaries		<b>39,313</b>	217,518
Decrease/(increase) in prepayments, deposits and other receivables		<b>170,602</b>	(9,011)
Increase in trade and bills payables		<b>330,726</b>	229,202
Increase/(decrease) in accrued liabilities, deposits received and other payables		<b>132,667</b>	(128,886)
Cash generated from operations		<b>1,975,999</b>	1,494,050
Interest paid for bank and other borrowings		<b>(251,154)</b>	(170,755)
Income taxes paid		<b>(271,466)</b>	(160,212)
<b>Net cash generated from operating activities</b>		<b>1,453,379</b>	1,163,083

## Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Cash flows from investing activities</b>		
Interest received	122,704	98,445
Dividend received from financial assets	7,631	17,432
Purchase of property, plant and equipment	(91,748)	(66,601)
Proceeds from disposal of property, plant and equipment	3,907	35,231
Land lease payments prepaid	(60,397)	(24,488)
Proceeds from disposal of prepaid land lease payments	–	33,637
Purchase of investment properties	(5,382)	(4,707)
Proceeds from disposal of investment properties	722	–
Investment in available-for-sale financial assets	(159)	–
Proceeds from disposal of available-for-sale financial assets	2,753	34,764
(Purchase)/disposal of financial assets at fair value through profit or loss	(224,138)	51
Additions of water supply and sewage treatment concession rights	(1,807,533)	(1,205,626)
Proceeds from early termination of a service concession arrangement	–	54,878
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	(125,253)	(601,219)
Disposal of subsidiaries (net of cash and cash equivalent disposed)	1,567	5,526
Investments in associates	(161,507)	(135,236)
Proceeds from disposal of an associate	534,458	190,909
Dividends received from associates	19,322	20,601
Increase in amounts due from associates	(236,912)	(194,160)
Increase in prepayments, deposits and other receivables	(1,226,059)	–
Deferred government grants received	36,781	23,332
Increase in pledged deposits	(333,683)	(59,974)
Decrease in fixed deposit with original maturity period over three months	–	100,000
<b>Net cash used in investing activities</b>	<b>(3,542,926)</b>	<b>(1,677,205)</b>

## Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000
<b>Cash flows from financing activities</b>			
Share options exercised	36	83,500	–
Proceeds from placing and subscription of new shares, net		–	149,483
Payment for repurchase of ordinary shares	36	(121,602)	–
Repurchase/redemption of convertible bonds		–	(1,441)
Interest on convertible bonds		–	(15)
Acquisition of additional interests in subsidiaries		(30,930)	–
Capital contribution by non-controlling equity holders of subsidiaries		106,232	31,241
Repayment of amounts due to non-controlling equity holders of subsidiaries		(67,688)	(117,856)
Repayment of amounts due to associates		(15,038)	(33,435)
Drawdown of bank loans		3,948,997	3,445,549
Repayment of bank loans		(2,502,998)	(1,989,614)
Drawdown of other loans		2,945,640	471,954
Repayment of other loans		(281,505)	(155,337)
Dividend paid		(134,737)	(106,390)
<b>Net cash generated from financing activities</b>		<b>3,929,871</b>	<b>1,694,139</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,840,324</b>	<b>1,180,017</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>2,551,836</b>	<b>1,400,748</b>
Effect of foreign exchange rates, net		(78,183)	(28,929)
<b>Cash and cash equivalents at end of year</b>	29	<b>4,313,977</b>	<b>2,551,836</b>

The notes on pages 52 to 165 are an integral part to these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

These financial statements are presented in Hong Kong Dollars ("HK\$"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 June 2017.

## 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"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, derivative financial assets, financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.1 Basis of preparation (Continued)

*Changes in accounting policy and disclosures*

#### (a) *New standard and amendments to standards adopted by the Group*

Annual improvements project HKFRS 10, HKFRS 12 and HKFRS 28 (Amendments) HKFRS 11 (Amendment)	Annual improvements to HKFRSs 2012-2014 cycle Investment entities: applying the consolidation exemption Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
HKAS 1 (Amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements

The adoption of these amendments to standards and interpretation have no significant effects on the Group's financial information.

#### (b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning on 1 April 2016 and have not been early adopted*

The following standards, amendments to standards and interpretation have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2017 or later periods, but the Group has not early adopted them.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.1 Basis of preparation (Continued)

*Changes in accounting policy and disclosures (Continued)*

(b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning on 1 April 2016 and have not been early adopted (Continued)*

		<b>Effective for accounting periods beginning on or after</b>
Annual improvements project	Annual improvements 2014-2016 cycle	1 January 2017 or 1 January 2018, whenever applicable
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 15 and HKFRS 15 (Amendments)	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses	1 January 2017
HKAS 40 (Amendments)	Transfers of investment property	1 January 2018
HK(IFRIC) Interpretation 22	Foreign currency transactions and advance consideration	1 January 2018

HKFRS 9 will be effective for the Group's financial statements for annual reporting period on or after 1 April 2018.

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The Group has yet to undertake a detailed assessment of the classification and measurement of its financial assets, but management considers that its investments in equity instruments currently classified as available-for-sale financial assets might fall within the classification as at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income which will not be recycled to the profit and loss, hence, there might be a change to the accounting of these assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.1 Basis of preparation (Continued)

*Changes in accounting policy and disclosures (Continued)*

- (b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning on 1 April 2016 and have not been early adopted (Continued)*

The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

There is a change in hedge accounting rules that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any such hedging instruments.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. The Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, and it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 will be effective for the Group's financial statements for annual reporting periods beginning on or after 1 April 2018. HKFRS 15 will replace all existing HKFRS revenue guidance and requirements including HKAS 18, HKAS 11 and the related Interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates

The Group is currently assessing the impacts of adopting HKFRS 15 on its consolidated financial statements and expects to adopt HKFRS 15 using the modified retrospective method.

HKFRS 16 will be effective for the Group's financial statements for annual reporting periods beginning on or after 1 April 2019. HKFRS 16 specifies how an entity recognise, measure, present and disclose leases. HKFRS 16 requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance with HKFRS 16's approach to lessor accounting substantially unchanged from its predecessor HKAS 17. The Group is assessing the impact of HKFRS 16. It is currently anticipated that the application of HKFRS 16 in the future may impact the Group's financial statements. However, the Group has not yet determined to what extent the lease commitments of the Group (note 41) will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The adoption of other standards, amendments and interpretations listed above in future periods is not expected to have any material impact on the Group's results of operations and financial position.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 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 HKAS 39 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 2017

## 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.

#### (e) *Separate financial statements*

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.3 Associates

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

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' 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 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 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 of interests are recognised in the consolidated income statement.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

### 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 HK dollars (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 or valuation where items are re-measured. 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 and cash and cash equivalents 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".

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in consolidated income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.5 Foreign currency translation (Continued)

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

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

#### (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 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 profit or loss. 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 or joint control) the proportionate share of the accumulated exchange difference is reclassified to income statement.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 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.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Construction in progress represents buildings and water pipelines under construction and 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	50 years or over the lease term, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Plant and machinery	6 to 20 years
Furniture, equipment and motor vehicles	5 years
Vessels	10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.7 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the term of the lease/right of use.

### 2.8 Investment properties

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.8 Investment properties (Continued)

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, 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.

### 2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed 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 cost 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 flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.10 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.11 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 excluding Hong Kong (the "PRC"). These intangible assets are amortised on straight-line basis over the terms of operation ranging from 10 to 50 years. Both period and method of amortisation are reviewed annually.

Intangible assets with finite useful lives are tested for impairment as described in note 2.9.

### 2.12 Financial assets

#### 2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivables", "receivables under service concession arrangements", "due from non-controlling equity holders of subsidiaries", "due from associates", "other receivables", "deposits", "cash and cash equivalents" in the statement of financial position.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.12 Financial assets (Continued)

#### 2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in consolidated statement of other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

#### 2.12.3 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.12 Financial assets (Continued)

#### 2.12.4 Impairment of financial assets

##### (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Impairment testing of trade and other receivables is described in note 4(ii).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.12 Financial assets (Continued)

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

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

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

### 2.13 Properties under development and held for sale

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

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

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

### 2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.15 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Further information about the Group's accounting for trade receivables is described in note 2.12.2 and note 2.12.4.

### 2.16 Service concession arrangements

Service concession arrangements are accounted for as follows if:

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

#### *The Group's rights over the infrastructure*

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

#### *Consideration received or receivable by the Group for the construction services*

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

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

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial assets" in note 2.12.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.16 Service concession arrangements (Continued)

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

An intangible asset (concession right) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession right) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" in note 2.11.

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

*Construction or upgrade services*

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" in note 2.17.

*Operating services*

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 2.26.

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

The Group has contractual obligations which it must fulfill as a condition of its licence, that is (a) to maintain the sewage treatment infrastructures and water supply 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 sewage treatment infrastructures and water supply infrastructures are recognised and measured in accordance with the policy set out for "Provisions" in note 2.20.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.17 Construction contracts

A construction contract is defined by HKAS 11, "Construction contracts", as a contract specifically negotiated for the construction of an asset.

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

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

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

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

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

### 2.18 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.

### 2.19 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, and bank overdrafts. In the consolidated and company financial position, bank overdrafts are shown within borrowings in current liabilities.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.20 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 the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of 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. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### 2.22 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.23 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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.

### 2.24 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.

### 2.25 Capitalisation of 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 profit or loss in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services and the use by others of the Group's assets yielding interests and dividends, net of rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below:

- (i) Sales of goods and properties are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;
- (ii) Revenue from hotel services is recognised based on the period in which such services have been rendered;
- (iii) Revenue arising from water supply is recognised based on water supplied as recorded by meters read during the year;
- (iv) Revenue from sewage treatment is recognised when services are rendered;
- (v) Water supply related installation and construction income is recognised when services are rendered;
- (vi) Revenue from long-term construction contracts is recognised by reference to the percentage of completion of the contract at the reporting date;
- (vii) Sewage treatment construction income is recognised according to the policy stated in note 2.17;
- (viii) Rental income receivable from operating lease is recognised in profit or loss on a straight-line basis over the periods covered by the lease term;
- (ix) Handling income is recognised when services are rendered;
- (x) Income from financial guarantee (as the case may be, including assessment fee related to issuance of financial guarantee) is recognised over the contract period on a time apportionment basis;
- (xi) Dividend is recognised when the right to receive payment is established;
- (xii) Finance income on receivables under service concession arrangements is recognised using the effective interest method; and
- (xiii) Interest income is recognised on a time-proportion basis using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

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

#### (ii) Short-term employee benefits

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

### 2.28 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's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.28 Current and deferred income tax (Continued)

#### (b) *Deferred income tax*

##### *Inside basis differences*

Deferred income tax is recognised, 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

##### *Outside basis differences*

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.29 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) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment and drainage operation and construction" segment involve the provision of water supply, sewage treatment and drainage operation and construction services; and
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

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

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

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

Segment assets exclude corporate assets (mainly comprises cash and cash equivalents and pledged deposits), available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial assets and interests in associates. Segment liabilities exclude items such as taxation 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 comprises 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 2017

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

### 2.30 Related parties

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### 2.31 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

### 2.32 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.

### 2.33 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 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

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

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

All customers who wish to obtain financial guarantee from the Group are subject to management review. The Group has entered into financial guarantee contracts in which it has guaranteed the banks the repayment of loans by customers of the Group. The Group has the obligation to compensate the bank for the loss it would suffer because the customers fail to repay. The Group's maximum exposure under the financial guarantee contracts is disclosed in "liquidity risk" below. To mitigate such risk, the Group requests the customers to provide 10% of loan amount as pledged deposits and pay all guarantee income in advance at the beginning of the loan period. Also, upon the request by the Group, key management personnel of the customers, as counter-guarantors, agree and undertake to provide, on voluntary basis, a counter-guarantee for the Group. The counter-guarantors hereby sign with the Group counter-guarantee contracts where the Group is the sole beneficiary on an unconditional and irrevocable basis. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the pledged deposit will be forfeited and the counter-guarantors are responsible to repay the outstanding loans principal together with accrued interests and penalties owed by the default borrowers to the bank. Except for the abovementioned, there is no requirement for collateral or other credit enhancement by the Group.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, receivables under service concession arrangements, due from non-controlling equity holders of subsidiaries, due from associates and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in cash and cash equivalents mitigated as cash is deposited with banks in Hong Kong and the PRC with high credit rating.



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) Credit risk (Continued)

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 reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risks.

At the reporting date, the Group's exposures of certain receivables were secured by the collateral of the customers as follows:

	2017 HK\$'000	2016 HK\$'000
Machinery	<u>140,048</u>	<u>43,925</u>

##### (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 RMB.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

#### (c) Interest rate risk

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

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

#### *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\$69,349,000 (2016: HK\$41,386,000).

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.

The sensitivity analysis included in the consolidated financial statements for the year ended 31 March 2016 has been prepared on the same basis.

#### (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 fair value through profit or loss, available-for-sale financial assets and derivative financial assets expose the Group to price risk.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

#### (d) Price risk (Continued)

##### *Sensitivity analysis*

At 31 March 2017, it is estimated that a general increase/decrease of 10% of the fair values of the financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial assets, with all other variables held constant, would increase/decrease the Group's profit after income tax or other comprehensive income and equity by approximately HK\$16,498,000 (2016: HK\$6,788,000).

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

The sensitivity analysis included in the consolidated financial statements for the year ended 31 March 2016 has been prepared on the same basis.

#### (e) Liquidity risk

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

#### 3.1 Financial risk factors (Continued)

##### (e) Liquidity risk (Continued)

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
<b>At 31 March 2017</b>					
Trade and bills payables	411,645	315,189	370,217	–	1,097,051
Other payables	644,248	372,587	221,111	–	1,237,946
Accrued liabilities	62,319	51,849	–	–	114,168
Due to associates	22,795	–	11,494	12,828	47,117
Borrowings	156,971	730,376	2,377,946	9,737,358	13,002,651
Due to non-controlling equity holders of subsidiaries	256,424	29,510	4,700	37,205	327,839
	<u>1,554,402</u>	<u>1,499,511</u>	<u>2,985,468</u>	<u>9,787,391</u>	<u>15,826,772</u>
<b>At 31 March 2016</b>					
Trade and bills payables	475,410	124,183	255,713	–	855,306
Other payables	573,467	254,121	294,387	–	1,121,975
Accrued liabilities	48,986	25,388	–	–	74,374
Due to associates	27,821	21,951	–	12,490	62,262
Borrowings	179,559	655,614	1,394,589	5,997,259	8,227,021
Due to non-controlling equity holders of subsidiaries	184,284	6,098	–	20,092	210,474
	<u>1,489,527</u>	<u>1,087,355</u>	<u>1,944,689</u>	<u>6,029,841</u>	<u>10,551,412</u>
<b>Financial guarantees issued</b>					
Maximum amount guaranteed	<u>352,802</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>352,802</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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

#### (e) Liquidity risk (Continued)

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

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

##### (i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bills receivables, receivables under service concession arrangements, deposits and other receivables, amounts due from/(to) associates and non-controlling equity holders of subsidiaries, cash and cash equivalents, available-for-sale financial assets, trade and bills payables, other payables, accrued liabilities and borrowings. The directors consider that the carrying amount of these financial assets and liabilities approximate their fair value at 31 March 2017 and 2016.

##### (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).

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

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

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

Fair value hierarchy (Continued)

At 31 March 2017, 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
<b>Assets</b>				
Available-for-sale financial assets	119,085	80,059	–	199,144
Financial assets at fair value				
through profit or loss	600	–	224,138	224,738
Derivative financial assets	–	–	45,298	45,298
Net fair values	<u>119,685</u>	<u>80,059</u>	<u>269,436</u>	<u>469,180</u>

At 31 March 2016, the financial assets and liabilities 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
<b>Assets</b>				
Available-for-sale financial assets	–	74,851	–	74,851
Financial assets at fair value				
through profit or loss	879	–	–	879
Derivative financial assets	–	–	67,004	67,004
Net fair values	<u>879</u>	<u>74,851</u>	<u>67,004</u>	<u>142,734</u>

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

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

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

#### *Information about level 2 fair value measurements*

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

#### *Information about Level 3 fair value measurement*

Financial assets at fair value through profit or loss comprise financial products with licensed banks in the PRC with annualised interest rate of 5%-6%. The Group used income method of discounted cash flows to determine its fair value.

The fair values of derivative financial assets are determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is the expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 March 2017, it is estimated that with all other variables held constant, an increase in the expected volatility by 5% would have increased the Group's profit by HK\$163,000 (2016: HK\$1,358,000) while a decrease in the expected volatility by 5% would have decreased the Group's profit by HK\$311,000 (2016: HK\$1,375,000) for conversion option embedded in China City Infrastructure Convertible Bonds classified as derivative financial assets.

For the significant inputs for the derivative financial assets, please refer to note 19(i).

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

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

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

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

	2017 HK\$'000	2016 HK\$'000
<b>Financial assets at fair value through profit or loss:</b>		
At 1 April	–	–
Purchase of financial assets of fair value through profit or loss	<b>224,138</b>	–
At 31 March	<b>224,138</b>	–
<b>Derivative financial assets:</b>		
At 1 April	<b>67,004</b>	99,952
Changes in fair value recognised in profit or loss	<b>(21,706)</b>	(32,948)
At 31 March	<b>45,298</b>	67,004
<b>Derivative financial liabilities:</b>		
At 1 April	–	2,987
Repurchase/redemption of convertible bonds	–	(2,987)
At 31 March	–	–



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 3.1 Financial risk factors (Continued)

(g) *Categories of financial assets and liabilities*

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

*Financial assets*

	2017 HK\$'000	2016 HK\$'000
Loan and receivables		
– Trade and bills receivables	871,891	1,083,551
– Receivables under service concession agreements	776,982	570,505
– Other receivables	1,734,686	652,565
– Due from associates	409,091	402,855
– Due from non-controlling equity holders of subsidiaries	250,582	307,572
	<b>4,043,232</b>	3,017,048
– Cash and cash equivalents and pledged deposits	5,096,990	3,018,598
	<b>9,140,222</b>	6,035,646
At fair value		
– Available-for-sale financial assets	199,144	74,851
– Financial assets at fair value through profit or loss	224,738	879
– Derivative financial assets	45,298	67,004
	<b>469,180</b>	142,734
At cost		
– Available-for-sale financial assets	140,750	151,916
	<b>9,750,152</b>	6,330,296

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

#### 3.1 Financial risk factors (Continued)

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

##### *Financial liabilities*

	2017 HK\$'000	2016 HK\$'000
At amortised cost		
– Trade and bills payables	1,097,051	855,236
– Other payables	1,237,946	1,121,975
– Accrued liabilities	114,168	74,374
– Borrowings	11,328,967	7,232,030
– Due to associates	46,685	61,723
– Due to non-controlling equity holders of subsidiaries	322,817	207,455
	<b>14,147,634</b>	<b>9,552,793</b>

(h) *Capital management*

The Group's capital management objectives include:

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

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

No changes were made in the objectives, policies or processes during the current and previous years. The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or raise new debts, or sell assets to reduce debt.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

#### 3.1 Financial risk factors (Continued)

##### (h) Capital management (Continued)

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

	2017 HK\$'000	2016 HK\$'000
<b>Capital</b>		
Total equity	<b>8,962,933</b>	8,446,442
<b>Overall financing</b>		
Borrowings	<b>11,328,967</b>	7,232,030
Due to associates	<b>46,685</b>	61,723
Due to non-controlling equity holders of subsidiaries	<b>322,817</b>	207,455
	<b>11,698,469</b>	7,501,208
<b>Capital-to-overall financing ratio</b>	<b>0.77 times</b>	1.13 times

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

#### (i) Depreciation and amortisation

The Group depreciates the property, plant and equipment, amortises prepaid land lease payments and the intangible assets (other than goodwill) in accordance with the accounting policies stated in notes 2.6, 2.7 and 2.11 respectively. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

### (ii) Allowance for and written off of irrecoverable receivables

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

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

### (iii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.10. The recoverable amounts 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 cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

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

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

### (v) Fair value measurement

A number of assets and liabilities 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'):

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

(v) *Fair value measurement (Continued)*

The classification of an item into the above levels 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);
- Available-for-sale financial assets (note 19);
- Financial assets at fair value through profit or loss (note 28); and
- Derivative financial assets (note 19(i)).

Detailed information in relation to the fair value measurement of the items above is set out in the applicable notes.

(vi) *Construction contracts*

As stated in note 2.17, revenue and profit recognition on an uncompleted project (including the Group's Build-Operate-Transfer (the "BOT arrangements") are dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the reporting date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts record to date.

(vii) *Income taxes and deferred taxation*

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

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

(viii) *Land appreciation tax ("LAT")*

The Group is subject to LAT in the PRC. However, the implementation and settlement of this tax varies among various tax jurisdictions in cities of the PRC. Accordingly, significant judgment is required in determining the amount of the land appreciation and its related LAT. The Group recognised LAT based on management's best estimates according to their understanding on the tax rules.

(ix) *Service concession arrangements*

The Group uses judgement to assess whether an agreement and the relevant assets fall into the scope of HK(IFRIC) - Int 12 in particular whether the Group or the grantors control the residual interest in the infrastructure at the end of service concession period. As explained in note 2.16, 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 valued by an independent qualified valuer, 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 2.17.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 5. SERVICE CONCESSION ARRANGEMENTS

The Group entered into a number of service concession arrangements with certain government authorities in the PRC on a BOT or Transfer-Operate-Transfer (the "TOT") basis in respect of its water supply and sewage treatment businesses. These service concession arrangements generally involve the Group as an operator (i) constructing water supply and sewage treatment infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the water supply and sewage treatment infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 10 to 50 years (2016: 10 to 50 years) (the "Service Concession Periods"), and the Group will be paid for its services over the relevant Service Concession Periods at prices stipulated through a pricing mechanism.

The Group is generally entitled to use all the property, plant and equipment of the water supply and sewage treatment 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 2017, the Group had over seventy service concession arrangements on water supply and sewage treatment businesses in the PRC and a summary of the major terms of these service concession arrangements are set out as follows:

Nature of business	Location	Type of service concession arrangement	Practical processing capacity per day (m <sup>3</sup> )	Service concession period
Water supply	PRC	TOT/BOT	2,000 - 300,000	1998 - 2059
Sewage treatment	PRC	TOT/BOT	10,000 - 120,000	2006 - 2045

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 6. REVENUE AND OTHER INCOME

The Group's principal activities are disclosed in notes 1 and 44 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:

	2017 HK\$'000	2016 HK\$'000 (Restated)
<b>Revenue:</b>		
Water supply operation services	1,621,834	1,447,242
Water supply connection income	967,065	979,241
Water supply construction services	2,285,362	1,495,970
Sewage treatment and drainage operation services	249,352	279,027
Sewage treatment construction services	281,810	39,211
Sales of goods	173,660	354,079
Hotel and rental income	23,685	28,875
Finance income	21,162	20,741
Handling income	23,442	16,496
Others	60,523	79,020
<b>Total</b>	<b>5,707,895</b>	<b>4,739,902</b>
<b>Other income:</b>		
Interest income	122,704	98,445
Government grants and subsidies <sup>#</sup>	52,937	67,291
Amortisation of deferred government grants (note 34)	4,200	5,217
Gain on disposal of prepaid land lease payments	–	30,728
Dividend income from financial assets	7,631	17,432
Miscellaneous income	54,976	81,548
<b>Total</b>	<b>242,448</b>	<b>300,661</b>

<sup>#</sup> 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 2017

## 7. SEGMENT INFORMATION

The executive directors have identified the Group's three product and service lines as reportable segments as further described in note 2.29.

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

### For the year ended 31 March 2017

	City water supply operation and construction HK\$'000	Sewage treatment and drainage operation and construction HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
<b>Revenue</b>						
From external customers	4,960,825	552,940	22,033	172,097	-	5,707,895
From inter-segment	-	-	-	-	-	-
<b>Segment revenue</b>	<u>4,960,825</u>	<u>552,940</u>	<u>22,033</u>	<u>172,097</u>	<u>-</u>	<u>5,707,895</u>
<b>Segment profit/(loss)</b>	<u>1,846,595</u>	<u>207,760</u>	<u>315,991</u>	<u>(27,076)</u>	<u>-</u>	<u>2,343,270</u>
Unallocated corporate income						130,533
Unallocated corporate expense						(210,701)
Equity-settled share options expenses						(13,983)
Gain on disposal of subsidiaries						43,905
Fair value loss on financial assets at fair value through profit or loss						(225)
Change in fair value of derivative financial assets						(21,706)
Finance costs						(251,154)
Share of results of associates	45,526	192	(103,818)	786	-	(57,314)
Profit before income tax						1,962,625
Income tax expense						(583,279)
Profit for the year						<u>1,379,346</u>
<b>Other segment information</b>						
Additions of investment properties	-	-	5,382	-	-	5,382
Additions to other non-current segment assets	2,090,621	36,966	400	45,581	-	2,173,568
Amortisation of deferred government grants	3,584	444	-	172	-	4,200
Amortisation of other intangible assets	(265,480)	(5,977)	-	-	-	(271,457)
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	(37,133)	(8,338)	(796)	(13,120)	-	(59,387)
Property, plant and equipment written off	(467)	-	-	-	-	(467)
Gain on disposal of property, plant and equipment	495	41	-	203	-	739
Fair value gain on investment properties	-	-	316,457	-	-	316,457
Reversal of provision of doubtful debts	-	573	-	164	-	737

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 7. SEGMENT INFORMATION (Continued)

For the year ended 31 March 2017 (Continued)

	City water supply operation and construction HK\$'000	Sewage treatment and drainage operation and construction HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Total HK\$'000
<b>Segment assets</b>	12,513,212	1,677,259	2,227,725	1,511,173	17,929,369
Other financial assets					609,930
Interests in associates	395,598	8,985	98,287	132,603	635,473
Other corporate assets					6,456,937
					<u>25,631,709</u>
<b>Segment liabilities</b>	2,916,335	301,437	405,800	88,449	3,712,021
Deferred tax liabilities					731,496
Provision for tax					662,899
Other corporate liabilities					11,562,360
					<u>16,668,776</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 7. SEGMENT INFORMATION (Continued) For the year ended 31 March 2016 (Restated)

	City water supply operation and construction (Restated) HK\$'000	Sewage treatment and drainage operation and construction HK\$'000	Property development and investment HK\$'000	All other segments (Restated) HK\$'000	Inter-segment elimination HK\$'000	Total (Restated) HK\$'000
<b>Revenue</b>						
From external customers	4,000,304	338,979	23,296	377,323	–	4,739,902
From inter-segment	2,764	36	–	23,093	(25,893)	–
<b>Segment revenue</b>	<u>4,003,068</u>	<u>339,015</u>	<u>23,296</u>	<u>400,416</u>	<u>(25,893)</u>	<u>4,739,902</u>
<b>Segment profit</b>	<u>1,468,117</u>	<u>184,148</u>	<u>44,076</u>	<u>60,470</u>	<u>–</u>	<u>1,756,811</u>
Unallocated corporate income						118,013
Unallocated corporate expense						(145,848)
Equity-settled share options expenses						(47,982)
Loss on disposal of a subsidiary						(1,488)
Fair value gain on financial assets at fair value through profit or loss						8
Change in fair value of derivative financial assets						(32,948)
Loss on repurchase/redemption of convertible bonds						(33)
Finance costs						(170,824)
Share of results of associates	20,460	246	(76,444)	85,255	–	29,517
Profit before income tax						1,505,226
Income tax expense						(405,374)
Profit for the year						<u>1,099,852</u>
<b>Other segment information</b>						
Additions of investment properties	–	–	4,707	–	–	4,707
Additions to other non-current segment assets	1,269,285	36,271	79,258	19,016	–	1,403,830
Amortisation of deferred government grants	4,742	433	–	42	–	5,217
Amortisation of other intangible assets	(220,807)	(6,341)	–	–	–	(227,148)
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	(24,527)	(8,569)	(8,730)	(21,081)	–	(62,907)
Property, plant and equipment written off	(7,840)	–	–	(1,971)	–	(9,811)
Loss on disposal of property, plant and equipment	(631)	(104)	–	(1,038)	–	(1,773)
Gain on disposal of prepaid land lease payments	30,728	–	–	–	–	30,728
Fair value gain on investment properties	–	–	52,900	–	–	52,900
(Provision)/reversal of provision of doubtful debts	(5,611)	–	–	27	–	(5,584)

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 7. SEGMENT INFORMATION (Continued) For the year ended 31 March 2016 (Restated) (Continued)

	City water supply operation and construction (Restated) HK\$'000	Sewage treatment and drainage operation and construction HK\$'000	Property development and investment HK\$'000	All other segments (Restated) HK\$'000	Total (Restated) HK\$'000
<b>Segment assets</b>	10,858,978	1,059,555	1,766,614	1,196,116	14,881,263
Other financial assets					294,650
Interests in associates	329,660	9,238	868,177	126,442	1,333,517
Other corporate assets					3,461,633
					<u>19,971,063</u>
<b>Segment liabilities</b>	2,494,241	116,288	120,337	210,138	2,941,004
Deferred tax liabilities					570,160
Provision for tax					524,147
Other corporate liabilities					7,489,310
					<u>11,524,621</u>

For the years ended 31 March 2017 and 2016, the Group did not depend on any single customers under each of the segments.

The Group's revenue from external customers and its non-current assets located in geographical areas other than the PRC are less than 10% of the aggregate amount of all segments.

"Concrete related products and services" segment has been combined to "all other segments" this year. Certain comparative figures of segment information were therefore restated.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 8. OPERATING PROFIT

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

	2017 HK\$'000	2016 HK\$'000 (Restated)
Cost of sales	3,222,990	2,641,967
Depreciation	44,653	45,355
Amortisation of prepaid land lease payments	14,734	17,552
Amortisation of other intangible assets	271,457	227,148
Operating leases in respect of		
– leasehold land and buildings	17,072	27,973
– other property, plant and equipment	28,531	33,429
Auditors' remuneration		
– Audit services	6,230	6,800
– Non-audit services	4,065	500
Staff costs (including directors' emoluments – note 13(a)):		
Salaries and wages	521,780	474,868
Pension scheme contribution	78,130	81,259
Equity-settled share options expenses	13,983	47,982
	<b>613,893</b>	604,109
(Gain)/loss on disposal of property, plant and equipment	(739)	1,773
Gain on disposal of prepaid land lease payments	–	(30,728)
Property, plant and equipment written off	467	9,811
(Reversal of provision)/provision of doubtful debts	(737)	5,584
Net foreign exchange loss	118	5,878

### 9. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interest on bank loans	276,018	208,646
Interest on other loans	124,814	119,944
Interest on convertible bonds	–	69
Total borrowing costs	<b>400,832</b>	328,659
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development (note)	<b>(149,678)</b>	(157,835)
	<b>251,154</b>	170,824

Note: The borrowing costs have been capitalised at rates ranging from 3.63% to 7.00% for the year ended 31 March 2017 (2016: 3.39% to 6.94%).

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 10. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	Note	2017 HK\$'000	2016 HK\$'000 (Restated)
Current income tax:			
– the PRC	(b)	424,100	289,532
Deferred tax (note 35)		159,179	115,842
Total income tax expense		583,279	405,374

(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% (2016: 25%) of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

Certain subsidiaries operating in the PRC enjoy a preferential income tax rate of 15% (2016: 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:

	2017 HK\$'000	2016 HK\$'000 (Restated)
Profit before income tax	1,962,625	1,505,226
Tax calculated at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	323,833	248,362
Effect of different tax rates of subsidiaries operating in other jurisdictions	201,437	143,329
Tax effect of non-taxable items	(62,186)	(27,339)
Tax effect of non-deductible items	96,752	47,399
Tax concession	(14,502)	(12,635)
LAT	35,307	7,995
Tax effect of LAT	(8,827)	(1,999)
Others	11,465	262
Income tax expense	583,279	405,374

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 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\$853,634,000 (2016: HK\$608,112,000, restated) and the weighted average of 1,504,978,000 (2016: 1,508,489,000) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2017, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$853,634,000 and on the weighted average of 1,541,243,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,504,978,000 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 36,265,000.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2016, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK\$608,112,000 (restated) and on the weighted average of 1,514,978,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,508,489,000 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 6,489,000.

### 12. DIVIDENDS

#### (a) Dividends attributable to the year

	2017 HK\$'000	2016 HK\$'000
Interim dividend of HK\$0.04 (2016: HK\$0.03) per ordinary share	59,789	45,596
Proposed final dividend of HK\$0.06 (2016: HK\$0.05) per ordinary share	91,023	75,993
Proposed special final dividend of HK\$0.10 (2016: Nil) per ordinary share	151,705	–
	<b>302,517</b>	<b>121,589</b>

The final and special final dividends proposed after the reporting date for the year ended 31 March 2017 and 2016 have not been recognised as a liability at the reporting date. In addition, the final and special final dividends are 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

	2017 HK\$'000	2016 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.05 (2016: HK\$0.04) per ordinary share	75,993	57,787
Adjustment to the final dividend (note)	(1,045)	3,007
	<b>74,948</b>	<b>60,794</b>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 12. DIVIDENDS (Continued)

- (c) Dividends recognised as distributions during the year ended 31 March 2017 amounted to HK\$134,737,000 (2016: HK\$106,390,000) or HK\$0.09 per ordinary share (2016: HK\$0.07 per ordinary share).

## 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 2017:

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 Company or its subsidiary undertaking HK\$'000	Total HK\$'000
<b>Executive directors</b>							
Mr. Duan Chuan Liang	-	10,000	9,500	5,778	18	57	25,353
Ms. Ding Bin	-	410	600	434	-	587	2,031
Ms. Liu Yu Jie	-	2,400	2,000	695	18	-	5,113
Mr. Li Zhong	-	1,289	1,200	2,603	18	1,398	6,508
<b>Non-executive directors</b>							
Mr. Zhao Hai Hu	-	120	-	261	-	541	922
Mr. Zhou Wen Zhi	-	120	-	87	-	-	207
Mr. Makoto Inone	-	60	-	-	-	-	60
Ms. Wang Xiaoqin	-	640	1,000	-	18	564	2,222
<b>Independent non-executive directors</b>							
Mr. Chau Kam Wing	348	-	-	-	-	-	348
Mr. Ong King Keung	300	-	-	-	-	-	300
Ms. Liu Dong (resigned with effect from 8 February 2017)	-	-	-	-	-	-	-
Mr. Siu Chi Ming	300	-	-	-	-	-	300
Ms. Ho Ping (appointed with effect from 8 February 2017)	18	-	-	-	-	-	18
<b>Total</b>	<b>966</b>	<b>15,039</b>	<b>14,300</b>	<b>9,858</b>	<b>72</b>	<b>3,147</b>	<b>43,382</b>



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 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 2016:

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 Company or its subsidiary undertaking HK\$'000	Total HK\$'000
<b>Executive directors</b>							
Mr. Duan Chuan Liang	-	10,000	10,000	23,133	18	60	43,211
Ms. Ding Bin	-	60	-	1,739	-	529	2,328
Ms. Liu Yu Jie	-	2,292	2,000	2,782	18	-	7,092
Mr. Li Zhong (appointed with effect from 4 June 2015)	-	1,064	-	2,485	12	1,369	4,930
<b>Non-executive directors</b>							
Mr. Zhao Hai Hu	-	120	-	1,043	-	585	1,748
Mr. Zhou Wen Zhi	-	120	-	348	-	-	468
Mr. Makoto Inone	-	60	-	-	-	-	60
Ms. Wang Xiaoqin (appointed with effect from 9 June 2015)	-	294	-	696	11	542	1,543
Mr. Chen Guo Ru (resigned with effect from 4 June 2015)	-	32	-	174	-	-	206
<b>Independent non-executive directors</b>							
Mr. Chau Kam Wing	348	-	-	-	-	-	348
Mr. Ong King Keung	300	-	-	-	-	-	300
Ms. Liu Dong	66	-	-	-	-	-	66
Mr. Siu Chi Ming (appointed with effect from 24 March 2016)	6	-	-	-	-	-	6
Ms. Huang Shao Yun (resigned with effect from 24 March 2016)	24	-	-	-	-	-	24
<b>Total</b>	<b>744</b>	<b>14,042</b>	<b>12,000</b>	<b>32,400</b>	<b>59</b>	<b>3,085</b>	<b>62,330</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 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 (2016: 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 (2016: 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 (2016: Nil).

**(e) Directors' material interests in transactions, arrangements or 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 (2016: Nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The five highest paid individuals in the Group during the year included three directors (2016: three directors), details of whose emoluments have been disclosed in note 13(a) above. The emoluments paid to the remaining individuals during the year are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries, allowances and other benefits	4,614	3,428
Retirement scheme contribution	103	107
Equity-settled share options expenses	1,042	4,173
	<u>5,759</u>	<u>7,708</u>

The emoluments fell within the following bands:

	2017	2016
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	–	–
HK\$4,000,001 to HK\$4,500,000	–	1
	<u>–</u>	<u>1</u>

During the years ended 31 March 2017 and 2016, 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 2017 and 2016.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Vessels HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>At 1 April 2015</b>							
Cost, as previously reported	1,630,791	63,306	4,192,815	194,184	29,477	1,426,111	7,536,684
Accumulated depreciation, as previously reported	(274,066)	(35,398)	(1,115,676)	(99,091)	(17,171)	-	(1,541,402)
Prior year adjustments (note 45)	(1,153,781)	(18,410)	(3,031,064)	-	-	(1,173,872)	(5,377,127)
<b>Net carrying amount, as restated</b>	<b>202,944</b>	<b>9,498</b>	<b>46,075</b>	<b>95,093</b>	<b>12,306</b>	<b>252,239</b>	<b>618,155</b>
<b>Year ended 31 March 2016 (Restated)</b>							
Opening net carrying amount, as restated	202,944	9,498	46,075	95,093	12,306	252,239	618,155
Additions	14,059	256	12,490	19,011	1,323	19,462	66,601
Acquisition of subsidiaries	31,216	17,388	23,817	10,358	-	14,356	97,135
Disposals	(13,822)	(735)	(337)	(3,465)	-	-	(18,359)
Disposal of subsidiaries	-	-	-	(21,950)	-	(5,500)	(27,450)
Written off	-	(2,187)	(246)	(622)	-	-	(3,055)
Transfers	7,541	-	525	15	-	(8,081)	-
Transfer to investment properties (note 17)	(25,271)	-	-	-	-	(57,851)	(83,122)
Depreciation	(9,741)	(4,913)	(7,620)	(20,329)	(2,752)	-	(45,355)
Exchange realignment	(4,883)	(261)	(1,280)	(2,516)	(297)	(5,558)	(14,795)
<b>Closing net carrying amount</b>	<b>202,043</b>	<b>19,046</b>	<b>73,424</b>	<b>75,595</b>	<b>10,580</b>	<b>209,067</b>	<b>589,755</b>
<b>At 31 March 2016 and 1 April 2016</b>							
Cost, as previously reported	1,967,604	70,297	5,011,646	193,753	30,081	1,445,041	8,718,422
Accumulated depreciation, as previously reported	(375,880)	(33,659)	(1,455,454)	(118,158)	(19,501)	-	(2,002,652)
Prior year adjustments (note 45)	(1,389,681)	(17,592)	(3,482,768)	-	-	(1,235,974)	(6,126,015)
<b>Net carrying amount, as restated</b>	<b>202,043</b>	<b>19,046</b>	<b>73,424</b>	<b>75,595</b>	<b>10,580</b>	<b>209,067</b>	<b>589,755</b>
<b>Year ended 31 March 2017</b>							
Opening net carrying amount, as restated	202,043	19,046	73,424	75,595	10,580	209,067	589,755
Additions	22,407	1,923	6,481	21,584	-	39,353	91,748
Acquisition of subsidiaries (note 39)	7,363	-	835	2,524	-	569,664	580,386
Disposals	-	-	-	(3,168)	-	-	(3,168)
Disposal of subsidiaries (note 40)	(19,170)	(916)	(18,134)	(9,388)	-	(10,188)	(57,796)
Written off	-	-	(34)	(433)	-	-	(467)
Transfers	1,625	-	-	2,371	-	(3,996)	-
Transfer from investment properties (note 17)	3,295	-	-	-	-	-	3,295
Depreciation	(6,548)	(1,342)	(15,511)	(18,989)	(2,263)	-	(44,653)
Exchange realignment	(11,531)	(1,094)	(3,834)	(3,897)	(608)	(11,315)	(32,279)
<b>Closing net carrying amount</b>	<b>199,484</b>	<b>17,617</b>	<b>43,227</b>	<b>66,199</b>	<b>7,709</b>	<b>792,585</b>	<b>1,126,821</b>
<b>At 31 March 2017</b>							
Cost	237,174	44,653	129,073	207,191	28,355	792,585	1,439,031
Accumulated depreciation	(37,690)	(27,036)	(85,846)	(140,992)	(20,646)	-	(312,210)
<b>Net carrying amount</b>	<b>199,484</b>	<b>17,617</b>	<b>43,227</b>	<b>66,199</b>	<b>7,709</b>	<b>792,585</b>	<b>1,126,821</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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

As at 31 March 2017, the Group's property, plant and equipment with a net carrying amount of HK\$587,168,000 (2016: Nil, restated) were pledged to secure banking facilities granted to the Group (note 32(i)(d)).

### 16. PREPAID LAND LEASE PAYMENTS

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

	2017 HK\$'000	2016 HK\$'000
<b>At 1 April</b>		
Cost	636,659	532,451
Accumulated amortisation	(81,555)	(65,578)
<b>Net carrying amount</b>	<b>555,104</b>	<b>466,873</b>
<b>For the year ended</b>		
At 1 April	555,104	466,873
Additions	60,397	24,488
Acquisition of subsidiaries (note 39)	182,600	143,182
Disposal	-	(2,909)
Disposal of subsidiaries (note 40)	(17,806)	(2,912)
Transfer to investment properties (note 17)	-	(43,418)
Amortisation	(14,734)	(17,552)
Exchange realignment	(31,778)	(12,648)
<b>Net carrying amount</b>	<b>733,783</b>	<b>555,104</b>
<b>At 31 March</b>		
Cost	807,139	636,659
Accumulated amortisation	(73,356)	(81,555)
<b>Net carrying amount</b>	<b>733,783</b>	<b>555,104</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 16. PREPAID LAND LEASE PAYMENTS (Continued)

As at 31 March 2017, the Group's prepaid land lease payments included certain land use rights with a net carrying amount of HK\$75,007,000 (2016: HK\$81,395,000) 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, there is no legal impediment for the Group to obtain these land use rights certificates.

As at 31 March 2017, the Group's prepaid land lease payments with a net carrying amount of HK\$272,859,000 (2016: HK\$197,157,000) were pledged to secure banking facilities granted to the Group (note 32(i)(e)).

### 17. INVESTMENT PROPERTIES

	2017 HK\$'000	2016 HK\$'000
<b>At fair value</b>		
Opening balance at 1 April	908,346	742,305
Additions	5,382	4,707
Transfer (to)/from property, plant and equipment (note 15)	(3,295)	83,122
Transfer from prepaid land lease payments (note 16)	–	43,418
Disposals	(1,911)	–
Disposal of subsidiaries (note 40)	(166)	–
Change in fair value	316,457	52,900
Exchange realignment	(52,176)	(18,106)
<b>Carrying amount at end of the year</b>	<b>1,172,637</b>	<b>908,346</b>
Change in unrealised gains for the year included in profit or loss for assets held at 31 March	<b>316,457</b>	52,900

As at 31 March 2016, the Group's investment properties with a carrying amount of HK\$80,365,000 were pledged to secure banking facilities granted to the Group (note 32(i)(f)). As at 31 March 2017, the Group's investment properties with a net carrying amount of HK\$109,728,000 (2016: HK\$116,418,000) were pledged to secure banking facilities granted to a non-controlling equity holder of a subsidiary of the Group.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 17. INVESTMENT PROPERTIES (Continued)

Investment properties were revalued on 31 March 2017 by RHL Appraisal Limited, independent firm of professional valuers.

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.

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

Properties	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Industrial properties under development located in the PRC	Level 3	Direct comparison approach	Market sale rate per square meter, taking into account of individual factors such as location and size, etc.	HK\$7,527 to HK\$12,077 (2016: HK\$10,706 to HK\$11,615)	The higher the price, the higher the fair value
Residential properties located in the PRC	Level 3	Direct comparison approach	Market sale rate per square meter, taking into account of individual factors such as location and size, etc.	HK\$55,292 to HK\$73,728 (2016: HK\$48,272 to HK\$56,055)	The higher the price, the higher the fair value
Leasehold land located in the PRC	Level 3	Direct comparison approach	Market sale rate per square meter, taking into account of individual factors such as location and size, etc.	HK\$392 to HK\$692 (2016: HK\$448 to HK\$1,008)	The higher the price, the higher the fair value

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 18. INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Share of net assets	469,434	1,092,866
Goodwill	166,039	240,651
	<b>635,473</b>	<b>1,333,517</b>
Market value of listed shares	–	517,658

All the balances for amounts due from/(to) associates were unsecured, interest-free and repayable on demand as at 31 March 2017 and 2016 except for as follows:

### As at 31 March 2017

- (a) The amount due from an associate with carrying amount of HK\$269,800,000 which bore interest rate ranged from 5.8% to 9% per annum and are repayable within one year.
- (b) The amount due to an associate with carrying amount of HK\$11,494,000 which bore interest rate at 5% per annum and was repayable within one year.
- (c) The amount due to an associate with carrying amount of HK\$12,396,000 which bore interest rate at 4.51% per annum and was repayable in July 2018.

### As at 31 March 2016

- (a) The amounts due from associates with carrying amount of HK\$231,347,000 which bore interest rate ranged from 3.65% to 24% per annum.
- (b) The amounts due from associates with carrying amount of HK\$10,082,000 which bore interest rate at 8% per annum and are repayable within one year.
- (c) The amount due to an associate with carrying amount of HK\$21,951,000 which bore interest rate at 6.35% per annum and was repayable within one year.
- (d) The amount due to an associate with carrying amount of HK\$11,951,000 which bore interest rate at 4.51% per annum and was repayable from 16 July 2017 to 15 August 2017.



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 18. INTERESTS IN ASSOCIATES (Continued)

During the year ended 31 March 2017, the Group partially disposed of its investment in China City Infrastructure Group Limited ("China City Infrastructure"), which is listed on the Stock Exchange of Hong Kong (Stock code: 2349) from 42.91% to 9.07%. Gain on disposal of HK\$73,388,000 was credited to the profit or loss and included in the share of results of associates in the consolidated income statement. Following the partial disposal that results in the Group losing significant influence over China City Infrastructure, the remaining investment is recognised as available-for-sale financial assets (note 19(ii)).

The Group has interests in a number of unlisted associates. In the opinion of the directors, no associates are considered material as at 31 March 2017.

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:

	2017 HK\$'000	2016 HK\$'000
Carrying values	<b>635,473</b>	1,333,517
(Loss)/profit before income tax	<b>(57,314)</b>	29,517
Other comprehensive income/(loss)	<b>17,410</b>	(45,342)
Total comprehensive loss	<b>(39,904)</b>	(15,825)

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

As at 31 March 2017 and 2016, the Group has other commitments relating to its investments in the associate as set out in note 41(c).

As at 31 March 2016, the Group's interests in associates with carrying amounts of HK\$778,031,000 were pledged as securities for banking facilities granted to the Group (note 32(i)(j)).

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	Notes	2017 HK\$'000	2016 HK\$'000
Unlisted debt securities in Hong Kong, at fair value	(i)	80,059	74,851
Listed equity securities in Hong Kong, at fair value	(ii)	119,085	-
Unlisted equity securities outside Hong Kong, at cost	(iii)	140,750	151,916
		<b>339,894</b>	<b>226,767</b>

Notes:

- (i) The Group held certain convertible bonds issued by China City Infrastructure (the "China City Infrastructure Convertible Bonds"), which are due on 13 November 2017 and are convertible into fully paid ordinary shares of China City Infrastructure with a par value of HK\$0.01 each at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. On 27 October 2009 and 24 October 2011, the conversion price was adjusted to HK\$0.045 and HK\$0.3781 (after share consolidation) respectively. The Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the China City Infrastructure Convertible Bonds does not trigger a mandatory offer obligation under The Hong Kong Code on Takeovers and Mergers. The China City Infrastructure Convertible Bonds can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date.

The Group held the China City Infrastructure Convertible Bonds with a principal amount of HK\$81,550,000 as at 1 April 2015. During the years ended 31 March 2017 and 2016, there was no disposal or conversion of the China City Infrastructure Convertible Bonds.

The China City Infrastructure Convertible Bonds are separated into two components: the debt element and the conversion options element. The Group has classified the debt element of the China City Infrastructure Convertible Bonds as available-for-sale financial assets and the conversion options element of the China City Infrastructure Convertible Bonds as derivative financial assets.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Notes: (Continued)

(i) (Continued)

The fair value of the debt element are based on the future cash flows discounted using the required yield, which was determined with reference to instruments of similar terms. The expected yield rate of the debt element at 31 March 2017 is 8.13% (2016: 9.50%). The fair value of the debt element as at 31 March 2017 and 2016 was determined by APAC Asset Valuation and Consulting Limited ("APAC"), an independent firm of professional valuer.

The fair value of the conversion options element as at 31 March 2017 and 2016 was determined by the directors of the Company with reference to the valuation performed by APAC on the Binomial model basis.

The major inputs used in the model are as follows:

	2017	2016
Underlying stock price	<b>HK\$0.57 per share</b>	HK\$0.59 per share
Conversion price	<b>HK\$0.3781 per share</b>	HK\$0.3781 per share
Risk-free rate	<b>0.38%</b>	0.42%
Expected volatility	<b>42.211%</b>	72.900%
Expected dividend yield	<b>Nil</b>	Nil

The carrying amounts of the debt element and conversion options element of the China City Infrastructure Convertible Bonds are as follows:

	Debt element – Unlisted debt securities HK\$'000	Conversion options element – Conversion options embedded in convertible bonds HK\$'000
<b>Net carrying amount at 1 April 2015</b>	<b>68,028</b>	<b>99,952</b>
Change in fair value		
– charged to profit or loss	–	(32,948)
– credited to other comprehensive income	6,823	–
<b>Net carrying amount at 31 March 2016 and at 1 April 2016</b>	<b>74,851</b>	<b>67,004</b>
Change in fair value		
– charged to profit or loss	–	(21,706)
– credited to other comprehensive income	5,208	–
<b>Net carrying amount at 31 March 2017</b>	<b>80,059</b>	<b>45,298</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Notes: (Continued)

- (ii) The Group held listed equity securities of China City Infrastructure, which are stated at fair value (note 18).
- (iii) The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.
- (iv) As at 31 March 2017, the Group's available-for-sales financial assets and derivative financial assets with carrying amounts of HK\$322,909,000 and HK\$45,298,000 respectively (2016: HK\$206,162,000 and HK\$67,004,000 respectively) were pledged as securities for banking facilities granted to the Group (note 32(i)(k)).

Available-for-sale financial assets are denominated in the following currencies:

	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Hong Kong dollars	<b>199,144</b>	74,851
Other currencies	<b>140,750</b>	151,916
	<b>339,894</b>	226,767

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 20. GOODWILL

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

	2017 HK\$'000	2016 HK\$'000
<b>At 1 April</b>		
Gross carrying amount	663,668	239,212
Accumulated impairment	–	–
<b>Net carrying amount</b>	<b>663,668</b>	<b>239,212</b>
Net carrying amount at 1 April	663,668	239,212
Acquisition of subsidiaries (note 39)	39,941	430,290
Exchange realignment	(17,182)	(5,834)
<b>Net carrying amount at 31 March</b>	<b>686,427</b>	<b>663,668</b>
<b>At 31 March</b>		
Gross carrying amount	686,427	663,668
Accumulated impairment	–	–
<b>Net carrying amount</b>	<b>686,427</b>	<b>663,668</b>

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

- water supply CGUs (“water supply CGUs”) within city water supply operation and construction segment;
- sewage treatment CGUs (“sewage treatment and drainage CGUs”) within sewage treatment and drainage operating and construction segment; and
- other CGUs (“other CGUs”).

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 20. GOODWILL (Continued)

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

	Water supply CGUs HK\$'000	Sewage treatment and drainage CGUs HK\$'000	Other CGUs HK\$'000	Total HK\$'000
<b>Carrying amount at 31 March 2017</b>	<b>472,966</b>	<b>211,230</b>	<b>2,231</b>	<b>686,427</b>
Carrying amount at 31 March 2016	443,931	217,506	2,231	663,668

The recoverable amounts of all the CGUs 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 for the CGUs include forecast future business growth, city water tariff, sewage charges, operating costs (including raw water and electricity costs) until the end of the respective service concession period. Discount rates of 10-11% are adopted on water supply and sewage treatment respectively to reflect specific risks relating to the relevant CGUs. Based on the impairment tests prepared, there is no significant impairment for goodwill as at 31 March 2017.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 21. OTHER INTANGIBLE ASSETS

	Water supply concession rights		Sewage treatment concession rights		Total	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>At beginning of the year</b>						
Cost, as previously reported	669,586	82,872	171,436	162,500	841,022	245,372
Accumulated amortisation, as previously reported	(19,976)	(17,643)	(57,073)	(52,000)	(77,049)	(69,643)
Prior year adjustments (note 45)	7,277,481	6,350,391	–	–	7,277,481	6,350,391
<b>Net carrying amount, as restated</b>	<b>7,927,091</b>	<b>6,415,620</b>	<b>114,363</b>	<b>110,500</b>	<b>8,041,454</b>	<b>6,526,120</b>
<b>For the year ended</b>						
As at 1 April, as restated	7,927,091	6,415,620	114,363	110,500	8,041,454	6,526,120
Additions	2,003,801	1,299,842	20,938	12,899	2,024,739	1,312,741
Acquisition of subsidiaries (note 39)	297,985	607,681	–	–	297,985	607,681
Disposals	–	(18,767)	–	–	–	(18,767)
Amortisation	(265,480)	(220,807)	(5,977)	(6,341)	(271,457)	(227,148)
Exchange realignment	(456,327)	(156,478)	(6,581)	(2,695)	(462,908)	(159,173)
<b>Net carrying amount</b>	<b>9,507,070</b>	<b>7,927,091</b>	<b>122,743</b>	<b>114,363</b>	<b>9,629,813</b>	<b>8,041,454</b>
<b>At 31 March</b>						
Cost	10,777,905	8,992,592	182,521	171,436	10,960,426	9,164,028
Accumulated amortisation	(1,270,835)	(1,065,501)	(59,778)	(57,073)	(1,330,613)	(1,122,574)
<b>Net carrying amount</b>	<b>9,507,070</b>	<b>7,927,091</b>	<b>122,743</b>	<b>114,363</b>	<b>9,629,813</b>	<b>8,041,454</b>

As at 31 March 2017, the Group's other intangible assets with a net carrying amount of HK\$510,411,000 (2016: 467,037,000, restated) were pledged as security for banking facilities granted to the Group (note 32(i)(g)).

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2017 HK\$'000	2016 HK\$'000
<b>Non-current</b>			
Deposits for acquisition of equity securities		13,701	102,195
Other deposits		2,188	13,053
		<b>15,889</b>	115,248
Prepayments and other receivables	(i)	<b>608,413</b>	30,542
		<b>624,302</b>	145,790
<b>Current</b>			
Prepayments		261,420	313,541
Deposits		1,265	4,133
Other receivables	(ii)	1,480,672	652,565
		<b>1,743,357</b>	970,239

Notes:

- (i) The balances mainly represented the prepayments for construction of water supply and sewage treatment infrastructure.
- (ii) The balances mainly represented receivables from customers for sewage treatment fees and various municipal service charges on behalf of certain government authorities in the PRC; receivables from certain government authorities for funds advancements; and various other receivables. The balances were unsecured, interest-free and repayable on demand as at 31 March 2017 and 2016, except for the receivables of aggregate carrying amount of approximately HK\$549,110,000 (2016: HK\$76,660,000) which bore interest rates ranging from 6% to 12% (2016: 5% to 11.7%) per annum and was repayable within one year (2016: repayable within one year).

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

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



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 23. PROPERTIES UNDER DEVELOPMENT

	2017 HK\$'000	2016 HK\$'000
<b>At cost</b>		
At 1 April	523,551	432,695
Additions	227,412	101,495
Transfer to properties held for sale (note 24)	(31,099)	–
Exchange realignment	(29,781)	(10,639)
At 31 March	<u>690,083</u>	<u>523,551</u>

As at 31 March 2017, the Group's properties under development with carrying amount of approximately HK\$63,588,000 (2016: HK\$63,584,000) were pledged to secure banking facilities granted to the Group (note 32(i)(h)).

### 24. PROPERTIES HELD FOR SALE

	2017 HK\$'000	2016 HK\$'000
<b>At cost</b>		
At 1 April	273,302	242,945
Additions	–	36,283
Transfer from properties under development (note 23)	31,099	–
Exchange realignment	(15,707)	(5,926)
At 31 March	<u>288,694</u>	<u>273,302</u>

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 25. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Raw materials and supplies	120,377	169,255
Work-in-progress	141,374	106,034
Finished goods	23,102	13,317
	<b>284,853</b>	<b>288,606</b>

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

### 26. TRADE AND BILLS RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade receivables (net of allowance for doubtful debts)	858,925	1,067,360
Bills receivables	12,966	16,191
	<b>871,891</b>	<b>1,083,551</b>

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

	2017 HK\$'000	2016 HK\$'000
0 to 90 days	345,031	627,052
91 to 180 days	164,691	229,133
Over 180 days	362,169	227,366
	<b>871,891</b>	<b>1,083,551</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 26. TRADE AND BILLS RECEIVABLES (Continued)

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

	2017 HK\$'000	2016 HK\$'000
Neither past due nor impaired	463,600	479,975
1 to 90 days past due	72,433	310,261
91 to 180 days past due	52,537	136,049
Over 180 days past due	283,321	157,266
	<b>871,891</b>	<b>1,083,551</b>

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

	2017 HK\$'000	2016 HK\$'000
At 1 April	7,577	2,043
Impairment loss recognised	–	5,584
Reversal of provision of doubtful debts	(737)	–
Exchange realignment	(435)	(50)
At 31 March	<b>6,405</b>	<b>7,577</b>

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 27. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

Receivables under service concession arrangements represented revenue from construction services under BOT and TOT arrangements and bear interest at rate of 3.96% to 5.9% (2016: 4.1% to 5.9%) per annum. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the BOT and TOT arrangements.

### 28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2017 HK\$'000	2016 HK\$'000
Listed equity securities, at market value:			
– PRC	(i)	600	879
Unlisted debt/equity securities	(ii)	224,138	–
		<b>224,738</b>	879

Notes:

- (i) Fair values of the listed equity securities have been determined by reference to their quoted bid prices at the reporting date in an active market.
- (ii) Financial assets at fair value through profit or loss comprise financial products with licensed banks in the PRC. The Group used income method of discounted cash flows to determine its fair value.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 HK\$'000	2016 HK\$'000
Cash at banks/other financial institutions and in hand	<b>3,609,097</b>	2,585,635
Deposits	<b>1,487,893</b>	432,963
	<b>5,096,990</b>	3,018,598
Deposit pledged against banking facilities granted to mortgagees	<b>(655)</b>	(527)
Deposit pledged for bank loans granted to independent third parties	–	(89,880)
Deposit pledged for bank loan (note 32(i)(i))	<b>(278,102)</b>	(163,451)
Deposit pledged for other loan (note 32(i)(i))	<b>(433,660)</b>	(161,272)
Deposit pledged for bills payables (note 30)	<b>(70,596)</b>	(51,632)
	<b>(783,013)</b>	(466,762)
Cash and cash equivalents	<b>4,313,977</b>	2,551,836

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 2017, the Group had cash and cash equivalents and pledged deposits denominated in RMB amounting to approximately HK\$3,252,115,000 (2016: HK\$2,169,460,000), 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 2017

### 30. TRADE AND BILLS PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables	970,979	716,943
Bills payables	126,072	138,293
	<b>1,097,051</b>	<b>855,236</b>

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

	2017 HK\$'000	2016 HK\$'000
0 to 90 days	630,418	517,141
91 to 180 days	135,966	183,559
Over 180 days	330,667	154,536
	<b>1,097,051</b>	<b>855,236</b>

As at 31 March 2017, the bills payables of HK\$126,072,000 (2016: HK\$138,293,000) were secured by the pledged bank deposits of HK\$70,596,000 (2016: HK\$51,632,000) (note 29).

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 31. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	Notes	2017 HK\$'000	2016 HK\$'000
<b>Non-current</b>			
Deposits received		<b>231,844</b>	192,415
<b>Current</b>			
Accrued liabilities		<b>114,168</b>	74,374
Deposits received	(i)	<b>749,491</b>	585,297
Other payables	(ii)	<b>1,237,946</b>	1,121,975
		<b>2,101,605</b>	1,781,646

Notes:

- (i) Deposits received mainly included the followings:
- (a) Deposits from customers of HK\$384,825,000 (2016: HK\$398,312,000) in respect of the Group's city water supply operation and construction businesses.
  - (b) Deposits from customers of HK\$275,454,000 (2016: HK\$2,206,000) in respect of the Group's property development and investment businesses.
  - (c) As at 31 March 2016, deposits received of HK\$94,869,000 in respect of the proposed disposal of certain equity interest of China City Infrastructure held by the Group.
- (ii) Other payables mainly included water supply and sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$348,029,000 (2016: HK\$331,179,000) and payables for other PRC tax surcharges and construction costs.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 32. BORROWINGS

	Notes	Original currency	2017 HK\$'000	2016 HK\$'000
<b>Current</b>				
Bank loans – unsecured	(ii)	RMB	<b>682,551</b>	319,490
Bank loans – secured	(i), (ii)	RMB	<b>976,035</b>	664,939
Bank loans – unsecured	(ii)	USD	<b>941,309</b>	748,591
Bank loans – unsecured	(ii)	HK\$	–	8,333
Other loans – unsecured	(iii)	RMB	<b>109,505</b>	159,649
Other loans – secured	(i), (iii)	RMB	<b>399,504</b>	158,537
Other loans – secured	(i), (iii)	USD	<b>62,400</b>	60,559
Government loans – unsecured	(iv)	RMB	<b>34,571</b>	35,690
			<b>3,205,875</b>	2,155,788
<b>Non-current</b>				
Bank loans – unsecured	(ii)	RMB	<b>474,556</b>	464,690
Bank loans – secured	(i), (ii)	RMB	<b>1,018,771</b>	517,561
Bank loans – unsecured	(ii)	USD	<b>3,170,165</b>	3,071,228
Other loans – unsecured	(iii)	RMB	<b>33,298</b>	54,147
Other loans – unsecured	(iii), (v)	USD	<b>2,271,405</b>	–
Other loans – secured	(i), (iii)	RMB	<b>899,346</b>	635,365
Other loans – secured	(i), (iii)	USD	<b>180,423</b>	242,793
Government loans – unsecured	(iv)	RMB	<b>75,128</b>	90,458
			<b>8,123,092</b>	5,076,242
			<b>11,328,967</b>	7,232,030



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 32. BORROWINGS (Continued)

	2017 HK\$'000	2016 HK\$'000
<b>Analysed into:</b>		
Bank loans repayable:		
Within one year or on demand	2,599,895	1,741,353
In the second year	1,198,277	1,108,992
In the third to fifth years, inclusive	2,342,898	2,130,263
Beyond five years	1,122,317	814,224
	<b>7,263,387</b>	<b>5,794,832</b>
Other loans repayable:		
Within one year or on demand	571,409	378,745
In the second year	545,894	271,291
In the third to fifth years, inclusive	2,838,578	661,014
	<b>3,955,881</b>	<b>1,311,050</b>
Government loans repayable:		
Within one year or on demand	34,571	35,690
In the second year	22,132	13,308
In the third to fifth years, inclusive	9,674	27,886
Beyond five years	43,322	49,264
	<b>109,699</b>	<b>126,148</b>

Notes:

- (i) The Group's borrowings at 31 March 2017 and 2016 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, government authorities, customers and Mr. Li Zhong, the executive director of the Company;

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 32. BORROWINGS (Continued)

Notes: (Continued)

- (i) The Group's borrowings at 31 March 2017 and 2016 were secured or guaranteed by: (Continued)
  - (d) charges over property, plant and equipment in which their aggregate carrying amounts as at 31 March 2017 was HK\$587,168,000 (2016: Nil, restated) (note 15);
  - (e) charges over interests in land use rights in which their aggregate carrying amounts as at 31 March 2017 was HK\$272,859,000 (2016: HK\$197,157,000) (note 16);
  - (f) charges over investment properties in which their aggregate carrying amounts as at 31 March 2016 was HK\$80,365,000 (note 17);
  - (g) charges over other intangible assets in which their aggregate carrying amounts as at 31 March 2017 was HK\$510,411,000 (2016: HK\$467,037,000, restated) (note 21);
  - (h) charges over the properties under development in which their aggregate carrying amounts as at 31 March 2017 was HK\$63,588,000 (2016: HK\$63,584,000) (note 23);
  - (i) charges over the bank deposits in amount of HK\$711,762,000 as at 31 March 2017 (2016: HK\$324,723,000) (note 29);
  - (j) charges over the interests in associates in which their aggregate carrying amounts as at 31 March 2016 was HK\$778,031,000 (note 18); and
  - (k) charges over the available-for-sale financial assets and derivative financial assets in which their aggregate carrying amounts as at 31 March 2017 were HK\$322,909,000 and HK\$45,298,000 respectively (2016: HK\$206,162,000 and HK\$67,004,000 respectively) (note 19(iv)).
- (ii) The effective interest rates of the Group's bank loans ranged from 1.97% to 9.74% (2016: 2.89% to 11.69%) per annum at 31 March 2017.
- (iii) The effective interest rates of the Group's other loans ranged from 3.54% to 12.80% (2016: 3.54% to 12.80%) per annum at 31 March 2017.
- (iv) The effective interest rates of the Group's government loans ranged from 1.2% to 5% (2016: 1.2% to 5%) per annum at 31 March 2017.
- (v) On 25 January 2017, the Company and certain existing subsidiaries of the Company which provided guarantee, entered into a purchase agreement with Morgan Stanley & Co. International plc in connection with the issue of US\$300 million 5.25% senior notes due February 2022. On 8 February 2017, the senior notes was listed and quoted on the Singapore Exchange.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 33. 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 from a non-controlling equity holders of subsidiaries with carrying amount of HK\$62,017,000 (2016: 87,383,000) as at 31 March 2017 which bore interest rate at 10% (2016: 10%) per annum and repayable on demand;
- (b) the amount due to non-controlling equity holders of subsidiaries with carrying amount of HK\$44,732,000 as at 31 March 2016 which bore interest rate ranged from 4.75% to 11% per annum and repayable on demand;
- (c) the amounts due to non-controlling equity holders of subsidiaries with carrying amount of HK\$30,392,000 (2016: 6,098,000) as at 31 March 2017 which bore interest rate ranged from 4.79% to 11.7% (2016: 7.8%) per annum and repayable within one year; and
- (d) the amount due to a non-controlling equity holder of subsidiary with carrying amount of HK\$32,183,000 (2016: HK\$17,073,000) as at 31 March 2017 which bore interest rate at 1.2% (2016: 1.2%) per annum and repayable in October 2030.

### 34. DEFERRED GOVERNMENT GRANTS

	2017 HK\$'000	2016 HK\$'000
At 1 April	99,809	78,701
Additions	55,404	23,332
Acquisition of subsidiaries	–	5,552
Amortisation (note 6)	(4,200)	(5,217)
Exchange realignment	(5,601)	(2,559)
<b>At 31 March</b>	<b>145,412</b>	<b>99,809</b>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 35. DEFERRED TAX ASSETS/LIABILITIES

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

The movements in deferred tax assets and liabilities during the year, without taking into accounts for the offsetting of balances within the same tax jurisdiction, are as follows:

### (a) Deferred tax assets

	<b>Accelerated depreciation</b> HK\$'000
At 1 April 2015, as previously reported	—
Credited to profit or loss, as previously reported	(66,426)
Net-off with deferred tax liabilities (note 35(b))	14,805
Prior year adjustments (note 45)	51,621
Credited to profit or loss, as restated (note 10)	—
<b>Net book value at 31 March 2016, as restated, and 31 March 2017</b>	<b>—</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 35. DEFERRED TAX ASSETS/LIABILITIES (Continued)

#### (b) Deferred tax liabilities

	Temporary differences on assets recognised under HK(IFRIC)-Int 12 HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Revaluation of properties HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 April 2015, as previously reported	12,440	28,078	200,871	–	241,389
Prior year adjustments (note 45)	196,699	–	–	–	196,699
Net book value at 1 April 2015, as restated	209,139	28,078	200,871	–	438,088
Charged to profit or loss, as previously reported	24,865	–	9,650	52,044	86,559
Net-off with deferred tax assets (note 35(a))	–	–	–	(14,805)	(14,805)
Prior year adjustments (note 45)	29,283	–	–	14,805	44,088
Charged to profit or loss, as restated (note 10)	54,148	–	9,650	52,044	115,842
Acquisition of subsidiaries	–	27,094	–	–	27,094
Exchange realignment	(4,920)	(662)	(5,282)	–	(10,864)
Net book value at 31 March 2016, as restated	258,367	54,510	205,239	52,044	570,160
Charged to profit or loss (note 10)	58,708	–	100,471	–	159,179
Acquisition of subsidiaries (note 39)	5,541	31,382	–	–	36,923
Exchange realignment	(15,755)	(3,324)	(12,514)	(3,173)	(34,766)
<b>At 31 March 2017</b>	<b>306,861</b>	<b>82,568</b>	<b>293,196</b>	<b>48,871</b>	<b>731,496</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 35. DEFERRED TAX ASSETS/LIABILITIES (Continued)

At 31 March 2017, the Group has unused tax losses of HK\$12,028,000 (2016: HK\$13,481,000) 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 2017, the aggregate amount of temporary differences associated with undistributed earnings of foreign owned PRC subsidiaries for which deferred tax liabilities have not been recognised is HK\$127,912,000 (2016: HK\$76,192,000). No deferred tax liabilities have been recognised in respect of these temporary differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

### 36. SHARE CAPITAL

	Notes	Number of shares '000	Par value HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each			
At 31 March 2016 and 2017		20,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK\$0.01 each			
At 1 April 2015		1,444,683	14,447
Subscription of new shares	(i)	36,907	369
Shares issued in respect of acquisition of subsidiaries	(ii)	29,208	292
Shares issued in respect of conversion of convertible bonds	(iii)	9,063	91
At 31 March 2016		1,519,861	15,199
Repurchased and cancelled	(iv)	(26,610)	(266)
Share option exercised	(v)	23,800	238
<b>At 31 March 2017</b>		<b>1,517,051</b>	<b>15,171</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 36. SHARE CAPITAL (Continued)

Notes:

- (i) On 15 May 2015, the Company entered into a subscription agreement with International Finance Corporation ("IFC"), pursuant to which IFC conditionally subscribed 36,907,143 new shares of the Company at HK\$4.20 each. On 29 May 2015, the subscription was completed and raised gross proceeds of approximately HK\$155 million (before expenses). The premium received was credited to the share premium account.
- (ii) On 27 April 2015, the Group entered into an agreement with AIRRO Cayman Holdings IV Corp and Ms. Lu Hai, that the Group conditionally acquired 100% of equity interests of Goldtrust Water Holdings Limited and its subsidiaries ("Goldtrust Water Group") and 9.7% of equity interest in Shenzhen Bus Group Co., Ltd. at the total cash consideration of US\$109,712,736. Supplemental agreement was entered between the Group and Ms. Lu Hai on 28 April 2015 that the Group issued and allotted 29,207,457 new shares of the Company at HK\$4.458 per share for the settlement of cash consideration payable to Ms. Lu Hai in relation to her shareholding interests in Goldtrust Water Group. The above transaction was completed on 3 June 2015 and the shares were issued on 3 June 2015. The fair value of the shares at the date of issuance amounted to HK\$124,132,000. The premium received was credited to the share premium account.
- (iii) During the year ended 31 March 2016, approximately 9,063,000 shares of the Company were issued in respect of conversion of convertible bonds at HK\$2.88 per ordinary share.
- (iv) During the year ended 31 March 2017, the Company repurchased a total of 26,610,000 ordinary shares of the Company at an aggregate cost of approximately HK\$121,031,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$5.92 and HK\$3.37 per share respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.
- (v) During the year ended 31 March 2017, the subscription rights attaching to 21,800,000 and 2,000,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$3.50 and HK\$3.60 per share respectively, resulting in the issue of aggregate of 23,800,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$83,500,000 (note 37). The premium received was credited to the share premium account. The related weighted average share price at the time of exercise was HK\$5.29.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 37. SHARE OPTION SCHEME

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

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

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

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

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

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



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 37. SHARE OPTION SCHEME (Continued)

Options granted during the years ended 31 March 2017 and 2016 are as follows.

	Share option type	Number of options			At 31 March 2017
		At 1 April 2016	Granted during the year	Exercised during the year	
<b>Directors</b>					
Mr. Duan Chuan Liang	2015 (a)	35,000,000	–	(2,000,000)	33,000,000
	2015 (b)	35,000,000	–	–	35,000,000
Ms. Liu Yu Jie	2015 (c)	4,000,000	–	(4,000,000)	–
	2015 (d)	4,000,000	–	(1,000,000)	3,000,000
Mr. Li Zhong	2016 (a)	4,000,000	–	–	4,000,000
	2016 (b)	4,000,000	–	–	4,000,000
Ms. Ding Bin	2015 (c)	2,500,000	–	–	2,500,000
	2015 (d)	2,500,000	–	–	2,500,000
Mr. Zhao Hai Hu	2015 (c)	1,500,000	–	(500,000)	1,000,000
	2015 (d)	1,500,000	–	–	1,500,000
Mr. Zhou Wen Zhi	2015 (c)	500,000	–	–	500,000
	2015 (d)	500,000	–	–	500,000
Ms. Wang Xiaoqin	2015 (c)	1,000,000	–	–	1,000,000
	2015 (d)	1,000,000	–	–	1,000,000
		<u>97,000,000</u>	<u>–</u>	<u>(7,500,000)</u>	<u>89,500,000</u>
Employees in aggregate	2015 (c)	22,750,000	–	(12,250,000)	10,500,000
	2015 (d)	22,750,000	–	(4,050,000)	18,700,000
		<u>45,500,000</u>	<u>–</u>	<u>(16,300,000)</u>	<u>29,200,000</u>
		<u>142,500,000</u>	<u>–</u>	<u>(23,800,000)</u>	<u>118,700,000</u>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 37. SHARE OPTION SCHEME (Continued)

	Share option type	Number of options				At 31 March 2016
		At 1 April 2015	Granted during the year	Exercised during the year	Transfer during the year	
<b>Directors</b>						
Mr. Duan Chuan Liang	2015 (a)	35,000,000	-	-	-	35,000,000
	2015 (b)	35,000,000	-	-	-	35,000,000
Ms. Liu Yu Jie	2015 (c)	4,000,000	-	-	-	4,000,000
	2015 (d)	4,000,000	-	-	-	4,000,000
Mr. Li Zhong	2016 (a)	-	4,000,000	-	-	4,000,000
	2016 (b)	-	4,000,000	-	-	4,000,000
Ms. Ding Bin	2015 (c)	2,500,000	-	-	-	2,500,000
	2015 (d)	2,500,000	-	-	-	2,500,000
Mr. Zhao Hai Hu	2015 (c)	1,500,000	-	-	-	1,500,000
	2015 (d)	1,500,000	-	-	-	1,500,000
Mr. Zhou Wen Zhi	2015 (c)	500,000	-	-	-	500,000
	2015 (d)	500,000	-	-	-	500,000
Mr. Chen Guo Ru (note 1)	2015 (c)	250,000	-	-	(250,000)	-
	2015 (d)	250,000	-	-	(250,000)	-
Ms. Wang Xiaoqin (note 2)	2015 (c)	-	-	-	1,000,000	1,000,000
	2015 (d)	-	-	-	1,000,000	1,000,000
		<u>87,500,000</u>	<u>8,000,000</u>	<u>-</u>	<u>1,500,000</u>	<u>97,000,000</u>
Employees in aggregate	2015 (c)	23,500,000	-	-	(750,000)	22,750,000
	2015 (d)	23,500,000	-	-	(750,000)	22,750,000
		<u>47,000,000</u>	<u>-</u>	<u>-</u>	<u>(1,500,000)</u>	<u>45,500,000</u>
		<u>134,500,000</u>	<u>8,000,000</u>	<u>-</u>	<u>-</u>	<u>142,500,000</u>

### Notes:

- (1) Mr. Chen Guo Ru resigned as a non-executive director of the Company with effect from 4 June 2015.
- (2) Ms. Wang Xiaoqin was appointed as a non-executive director of the Company with effect from 9 June 2015.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 37. SHARE OPTION SCHEME (Continued)

Details of the Options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
2015 (a)	3 October 2014	3 October 2015 to 3 October 2017	HK\$3.6
2015 (b)	3 October 2014	3 October 2016 to 3 October 2017	HK\$3.6
2015 (c)	3 October 2014	3 October 2015 to 3 October 2017	HK\$3.5
2015 (d)	3 October 2014	3 October 2016 to 3 October 2017	HK\$3.5
2016 (a)	9 September 2015	9 September 2015 to 9 September 2018	HK\$3.5
2016 (b)	9 September 2015	9 September 2016 to 9 September 2018	HK\$3.5

Equity-settled share options expenses of HK\$13,983,000 (2016: HK\$47,982,000) has been included in the consolidated income statement for the year ended 31 March 2017. It gave rise to a share options reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

The fair values of the Options granted were determined using binomial option valuation model. Significant inputs into the model were as follows:

Share option type	2015 (a)	2015 (b)	2015 (c)	2015 (d)	2016 (a)	2016 (b)
Share price	HK\$3.40	HK\$3.40	HK\$3.40	HK\$3.40	HK\$3.44	HK\$3.44
Exercise price	HK\$3.60	HK\$3.60	HK\$3.50	HK\$3.50	HK\$3.50	HK\$3.50
Expected volatility	33.60%	33.60%	33.60%	33.60%	35.0%	35.0%
Expected option life (year)	3	3	3	3	3	3
Weighted average annual risk free interest rate	1.34%	1.34%	1.34%	1.34%	0.60%	0.60%
Expected dividend yield	2.50%	2.50%	2.50%	2.50%	2.0%	2.0%

The expected volatility represents the historical volatility of the share price of the ordinary shares of the Company.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 37. SHARE OPTION SCHEME (Continued)

Share options and weighted average exercise price are summarised as follows for the reporting periods presented:

	2017		2016	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 April	142,500,000	3.55	134,500,000	3.55
Granted	–	–	8,000,000	3.50
Exercised	(23,800,000)	3.51	–	–
Expired/cancelled	–	–	–	–
Outstanding at 31 March	<b>118,700,000</b>	<b>3.56</b>	<b>142,500,000</b>	<b>3.55</b>

The Options outstanding at 31 March 2017, which are all exercisable, had exercise price ranged from HK\$3.50 to HK\$3.60 (2016: HK\$3.50 to HK\$3.60) and a weighted average remaining contractual life of 0.6 years (2016: 1.5 years).

At the end of the reporting period, the Company had 118,700,000 share options outstanding under the Scheme which represented approximately 7.82% of the Company's shares in issue as at 31 March 2017. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 118,700,000 additional ordinary shares of the Company and additional share capital of HK\$1,187,000 and share premium of HK\$421,063,000 (before issue expenses).

Subsequent to the end of the reporting period, 9,200,000 share options were exercised resulted in the issue of 9,200,000 ordinary shares of the Company and additional share capital of HK\$92,000 and share premium of HK\$32,108,000 (before issue expenses).

At the date of approval of these financial statements, the Company has 109,500,000 share options outstanding under the share option schemes, which represented approximately 7.17% of the Company's share in issue as at that date.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 38. 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 47 to 48.

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

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

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

Other reserves represent (i) the difference between the consideration and the carrying amount of the net assets attributable to the additional and reduction of interests in subsidiaries being acquired from and disposed to non-controlling 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.

### 39. BUSINESS COMBINATIONS

- (a) On 26 April 2016, the Group entered into an agreement with an independent third party to acquire 100% equity interest in 宜春銀龍水務有限公司 (formerly known as 江西省宜春檳榔水業有限公司) ("Yichun Water") at a consideration of HK\$65,476,000. Yichun Water is principally engaged in water supply operation. The acquisition was completed on 24 June 2016.

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

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

	HK\$'000
Purchase consideration – settled by cash	65,476
Fair value of net identified assets acquired	(40,193)
<b>Goodwill (note 20)</b>	<b>25,283</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 39. BUSINESS COMBINATIONS (Continued)

(a) (Continued)

The goodwill of HK\$25,283,000, which is not deductible for tax purposes, comprises the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

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

	<b>Fair value</b>	<b>Carrying amount</b>
	HK\$'000	HK\$'000
Property, plant and equipment	1,878	1,878
Prepaid land lease payments	1,727	1,727
Other intangible assets	48,041	48,041
Inventories	1,127	1,127
Trade and bills receivables	1,417	1,417
Prepayments, deposits and other receivables	556	556
Cash and cash equivalents	5,760	5,760
Trade and bills payables	(138)	(138)
Accrued liabilities, deposits received and other payables	(3,242)	(3,242)
Borrowings	(16,933)	(16,933)
<b>Net identifiable assets attributed to the Group acquired</b>	<b>40,193</b>	<b>40,193</b>
Cash and cash equivalents in business acquired		5,760
Cash outflow on acquisition of business		(65,476)
<b>Net cash outflow arising on acquisition</b>		<b>(59,716)</b>

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

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

Since its acquisition, Yichuan Pinang Water contributed revenue of HK\$11,960,000 and net profit of HK\$939,000 to the Group for the period from 24 June 2016 to 31 March 2017.

Had the combination been taken place on 1 April 2016, the revenue and the net profit of the Group for the year ended 31 March 2017 would have been HK\$5,711,933,000 and HK\$1,378,927,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2016, nor are they intended to be a projection of future results.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 39. BUSINESS COMBINATIONS (Continued)

- (b) On 21 January 2017, the Group entered into an agreement with two independent third parties to acquire 70% equity interest in Hang Da Holdings (HK) Limited ("Hang Da Holding") at a consideration of approximately HK\$55,253,000. Hang Da Holding and its subsidiaries ("Hang Da Group") are principally engaged in water supply and sewage treatment operations. The acquisition was completed on 6 March 2017.

The acquisition was made as part of the Group's strategy to facilitate the water supply and sewage treatment business in the PRC.

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

	HK\$'000
Purchase consideration – settled by cash	55,253
Fair value of net identified assets acquired	(49,370)
<b>Goodwill (note 20)</b>	<b>5,883</b>

The goodwill of HK\$5,883,000, which is not deductible for tax purposes, comprises the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	1,203	1,203
Prepaid land lease payments	31,448	19,466
Other intangible assets	249,944	227,779
Receivables under service concession arrangements	37,610	37,610
Inventories	1,976	1,976
Trade receivables	1,397	1,397
Prepayments, deposits and other receivables	25,339	25,339
Cash and cash equivalents	2,907	2,907
Trade payables	(15,755)	(15,755)
Accrued liabilities, deposits received and other payables	(120,993)	(120,993)
Due to non-controlling equity holders of subsidiaries	(110,048)	(110,048)
Provision for tax	(101)	(101)
Borrowings	(25,862)	(25,862)
Deferred tax liabilities	(8,537)	–
Non-controlling interests	(21,158)	(13,475)
<b>Net identifiable assets attributed to the Group acquired</b>	<b>49,370</b>	<b>31,443</b>
Cash and cash equivalents in business acquired		2,907
Cash outflow on acquisition of business		(55,253)
<b>Net cash outflow arising on acquisition</b>		<b>(52,346)</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 39. BUSINESS COMBINATIONS (Continued)

(b) (Continued)

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

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

Since its acquisition, Hang Da Group contributed revenue of HK\$13,909,000 and net profit of HK\$3,247,000 to the Group for the period from 6 March 2017 to 31 March 2017.

Had the combination been taken place on 1 April 2016, the revenue and the net profit of the Group for the year ended 31 March 2017 would have been HK\$5,769,493,000 and HK\$1,381,801,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2016, nor are they intended to be a projection of future results.

(c) On 30 June 2014, the Group entered into an agreement with an independent third party to acquire 49% equity interest in 杭州梁運儲運有限公司 (“Hangzhou Liangyun”) at a consideration of RMB76,000,000 (approximately HK\$87,356,000). Hangzhou Liangyun are principally engaged in warehousing, storage and logistics operations in the PRC. The Group previously held 49% equity interest of Hangzhou Liangyun, which was accounted for as an associate as at 31 March 2016. The further acquisition of 49% equity interest of Hangzhou Liangyun was completed on 31 March 2017.

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

	HK\$'000
Deposit paid in prior year	87,356
Fair value of the Group's interest previously held in Hangzhou Liangyun	117,897
Fair value of net identified assets acquired	<u>(226,618)</u>
<b>Excess over the cost of business combination</b>	<b><u>(21,365)</u></b>

The excess over the cost of business combination of HK\$21,365,000 mainly arose from the fair value gain on prepaid land lease payments and was recognised in profit or loss.



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 39. BUSINESS COMBINATIONS (Continued)

(c) (Continued)

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

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	577,114	577,114
Prepaid land lease payments	149,425	127,586
Prepayments, deposits and other receivables	176,686	176,686
Cash and cash equivalents	838	838
Accrued liabilities, deposits received and other payables	(529,492)	(529,492)
Borrowings	(114,943)	(114,943)
Deferred tax liabilities	(28,386)	(22,927)
Non-controlling interests	(4,624)	(4,297)
<b>Net identifiable assets attributed to the Group acquired</b>	<b>226,618</b>	<b>210,565</b>
<b>Cash and cash equivalents in business acquired and net cash inflow arising on acquisition</b>		<b>838</b>

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

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

Had the combination been taken place on 1 April 2016, the revenue and the net profit of the Group for the year ended 31 March 2017 would have been HK\$5,707,895,000 and HK\$1,377,422,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2016, nor are they intended to be a projection of future results.

(d) The above represent material acquisitions for the year ended 31 March 2017. There were other immaterial business combinations took place during the year which are not disclosed.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 40. DISPOSAL OF SUBSIDIARIES

- (a) During the year ended 31 March 2017, the Group disposed of 60% equity interest in 新余市建和混凝土有限公司 and its subsidiaries (“Xinyu Jianhe Group”) at a consideration of RMB12,170,000 (approximately HK\$13,830,000). Xinyu Jianhe Group is principally engaged in manufacture and sale of concrete products business. The disposal was completed in December 2016 and the Group recognised a gain on disposal of approximately HK\$30,590,000. After completion of the disposal, Xinyu Jianhe Group became the associates of the Group with 40% equity interests.
- (b) During the year ended 31 March 2017, the Group disposed of the entire interest in 寧鄉建和建材有限公司 (“Ningxiang Jianhe”) at a consideration of RMB14,000,000 (approximately HK\$15,909,000). Ningxiang Jianhe is principally engaged in water supply infrastructure, manufacture and sale of concrete products business. The disposal was completed in December 2016 and the Group recognised a gain on disposal of approximately HK\$13,943,000.
- (c) The above represent material disposals of subsidiaries for the year ended 31 March 2017. There were other immaterial disposals of subsidiaries took place during the year which are not disclosed.

### 41. COMMITMENTS AND GUARANTEES

#### (a) Capital commitments

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

	2017 HK\$'000	2016 HK\$'000 (Restated)
Contracted, but not provided for		
– Other intangible assets	169,909	99,735
– Property, plant and equipment	33,179	–
	<b>203,088</b>	99,735

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 41. COMMITMENTS AND GUARANTEES (Continued)

#### (b) Operating lease arrangement

##### *As lessee*

The Group leases certain of its leasehold land, properties and plant and machinery under operating lease arrangements for initial period ranging from one to twenty years (2016: one to twenty years). Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the Group and the landlords. None of the leases include contingent rentals.

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

	2017 HK\$'000	2016 HK\$'000
Within one year	31,776	35,813
In the second to fifth years, inclusive	122,639	135,549
After five years	229,834	273,270
	<b>384,249</b>	<b>444,632</b>

##### *As lessor*

The Group leases its investment properties under operating lease arrangements for terms ranging from one to ten years (2016: one to ten years). 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:

	2017 HK\$'000	2016 HK\$'000
Within one year	18,599	26,986
In the second to fifth years, inclusive	35,010	45,037
After five years	661	2,349
	<b>54,270</b>	<b>74,372</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 41. COMMITMENTS AND GUARANTEES (Continued)

- (c) As at 31 March 2017, the Group had commitment to make direct capital injections to its associates operating in the PRC of approximately HK\$5,029,000 (2016: HK\$7,390,000).
- (d) As at 31 March 2017, the Group had commitment, which is contracted but not provided for, to make acquisition of equity securities of approximately HK\$80,966,000 (2016: HK\$85,903,000). The relevant deposits of approximately HK\$8,966,000 (2016: HK\$9,512,000) were paid as at 31 March 2017.
- (e) As at 31 March 2017, the Group had given guarantees to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$5,006,000 (2016: HK\$7,204,000). As at 31 March 2016, Changsha Guarantee Group has provided financial guarantees to the customers of approximately HK\$345,598,000 in its ordinary course of business.

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.

## 42. 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:

Compensation of key management personnel of the Group:

	2017 HK\$'000	2016 HK\$'000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	42,063	34,779
– Retirement scheme contribution	495	374
– Equity-settled share options expenses	11,247	35,703
	<b>53,805</b>	<b>70,856</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

### (a) Statement of financial position of the Company

Notes	2017 HK\$'000	2016 HK\$'000
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Property, plant and equipment	737	1,100
Interests in subsidiaries	1,925,112	1,819,850
Interest in an associate	187,245	190,452
Available-for-sale financial assets	254	285,527
	<b>2,113,348</b>	2,296,929
<b>Current assets</b>		
Due from subsidiaries	4,566,537	2,928,561
Due from associates	7,380	3,649
Prepayments, deposits and other receivables	142,859	8,685
Pledged deposits	190,180	–
Cash and cash equivalents	1,570,128	876,578
	<b>6,477,084</b>	3,817,473
<b>Current liabilities</b>		
Due to subsidiaries	308,652	162,593
Accrued liabilities, deposits received and other payables	88,086	153,732
Provision for tax	–	4
Borrowings	1,089,916	817,483
	<b>1,486,654</b>	1,133,812
<b>Net current assets</b>	<b>4,990,430</b>	2,683,661
<b>Total assets less current liabilities</b>	<b>7,103,778</b>	4,980,590
<b>Non-current liabilities</b>		
Borrowings	5,541,090	3,319,325
Deferred government grants	2,370	2,370
	<b>5,543,460</b>	3,321,695
<b>Net assets</b>	<b>1,560,318</b>	1,658,895
<b>EQUITY</b>		
Share capital	36	15,171
Reserves	43(b)	1,545,147
<b>Total equity</b>	<b>1,560,318</b>	1,658,895

Approved and authorised for issue by the board of directors on 29 June 2017 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 2017

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

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

	Proposed final dividend HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Share options reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
<b>Balance at 1 April 2015</b>	<b>57,787</b>	<b>429,790</b>	<b>924,988</b>	<b>2,559</b>	<b>99,674</b>	<b>34,251</b>	<b>(1,844)</b>	<b>82,685</b>	<b>1,629,890</b>
Subscription of new shares (note 36)	-	154,641	-	-	-	-	-	-	154,641
Share issued in respect of conversion of convertible bonds	-	30,512	-	-	-	-	-	-	30,512
Share issuance expenses	-	(5,527)	-	-	-	-	-	-	(5,527)
Equity settled share options expenses (note 37)	-	-	-	-	-	47,982	-	-	47,982
Arising from acquisition of subsidiaries	-	123,840	-	-	-	-	-	-	123,840
Final dividend 2015 (note 12)	(57,787)	-	(3,007)	-	-	-	-	-	(60,794)
Interim dividend 2016 (note 12)	-	-	(45,596)	-	-	-	-	-	(45,596)
<b>Transactions with owners</b>	<b>(57,787)</b>	<b>303,466</b>	<b>(48,603)</b>	<b>-</b>	<b>-</b>	<b>47,982</b>	<b>-</b>	<b>-</b>	<b>245,058</b>
<b>Proposed final dividend 2016 (note 12)</b>	<b>75,993</b>	<b>-</b>	<b>(75,993)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loss for the year	-	-	-	-	-	-	-	(157,603)	(157,603)
Other comprehensive income									
- Change in fair value of available- for-sale financial assets	-	-	-	-	(74,108)	-	-	-	(74,108)
- Currency translation	-	-	-	-	-	-	459	-	459
<b>Total comprehensive (loss)/ income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(74,108)</b>	<b>-</b>	<b>459</b>	<b>(157,603)</b>	<b>(231,252)</b>
<b>Balance at 31 March 2016</b>	<b>75,993</b>	<b>733,256</b>	<b>800,392</b>	<b>2,559</b>	<b>25,566</b>	<b>82,233</b>	<b>(1,385)</b>	<b>(74,918)</b>	<b>1,643,696</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

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

	Proposed final dividend	Share premium account	Contributed surplus	Capital redemption reserve	Available- for-sale financial assets revaluation reserve	Share options reserve	Exchange fluctuation reserve	(Accumulated losses)/ retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2016	75,993	733,256	800,392	2,559	25,566	82,233	(1,385)	(74,918)	1,643,696
Share options exercised (note 36)	-	83,262	-	-	-	-	-	-	83,262
Share repurchase (note 36)	-	(120,765)	-	-	-	-	-	-	(120,765)
Share repurchase expenses	-	(571)	-	-	-	-	-	-	(571)
Equity settled share options expenses (note 37)	-	-	-	-	-	13,983	-	-	13,983
Final dividend 2016 (note 12)	(75,993)	-	1,045	-	-	-	-	-	(74,948)
Interim dividend 2017 (note 12)	-	-	(59,789)	-	-	-	-	-	(59,789)
<b>Transactions with owners</b>	<b>(75,993)</b>	<b>(38,074)</b>	<b>(58,744)</b>	<b>-</b>	<b>-</b>	<b>13,983</b>	<b>-</b>	<b>-</b>	<b>(158,828)</b>
Proposed final and special final dividends 2017 (note 12)	242,728	-	(242,728)	-	-	-	-	-	-
Transfer to capital redemption reserve (note 36)	-	-	-	266	-	-	-	(266)	-
Profit for the year	-	-	-	-	-	-	-	85,530	85,530
Other comprehensive income									
- Change in fair value of available-for-sale financial assets	-	-	-	-	(25,718)	-	-	-	(25,718)
- Currency translation	-	-	-	-	-	-	467	-	467
<b>Total comprehensive (loss)/ income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,718)</b>	<b>-</b>	<b>467</b>	<b>85,530</b>	<b>60,279</b>
Balance at 31 March 2017	242,728	695,182	498,920	2,825	(152)	96,216	(918)	10,346	1,545,147

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

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

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

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

The contributed surplus represented (i) reduction in issued share capital pursuant to a capital restructuring on 25 July 2003; and (ii) the share premium reduction during the year ended 31 March 2010. Under the Companies Law of Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if: (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

### (a) General information of principal subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2017 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 Group (HK) Limited	British Virgin Islands ("BVI")/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
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 share of HK\$1	100%	–	Investment holding
Sharp Profit Investments Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
Good Outlook Investments Limited	BVI/Hong Kong	1 ordinary share of US\$1	100%	–	Investment holding
銀龍水務投資有限公司 <sup>#</sup>	PRC	Registered capital of RMB1,000,000,000	100%	–	Investment holding
上海倍臣水務發展有限公司 <sup>^</sup>	PRC	Registered capital of RMB404,000,000	–	100%	Investment holding
上海銀龍股權投資有限公司 <sup>^</sup>	PRC	Registered capital of RMB1,000,000,000	–	100%	Investment holding
江河水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB225,000,000	–	100%	Investment holding
江西省銀龍水務有限公司 <sup>#</sup>	PRC	Registered capital of RMB20,000,000	100%	–	Investment holding

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
河南銀龍供水有限公司#	PRC	Registered capital of RMB287,000,000	–	100%	Investment holding
金達環保投資(深圳) 有限公司#	PRC	Registered capital of RMB327,220,000	–	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
廣東新晟環保投資集團有限公司#	PRC	Registered capital of RMB323,890,000	–	100%	Investment holding
河南國源水務有限公司^	PRC	Registered capital of RMB300,000,000	–	100% (2016: 90%)	Investment holding, construction and operation of water conservation and hydropower related projects
荊州水務集團有限公司(ii)*	PRC	Registered capital of US\$60,589,200	36.9%	14.1%	Investment holding, city water supply and water supply infrastructure
江陵銀龍水務有限公司*	PRC	Registered capital of US\$2,580,000	32.2%	67.8%	City water supply and water supply infrastructure
新余水務集團有限公司*	PRC	Registered capital of RMB150,000,000	60%	–	City water supply and water supply infrastructure
宜豐縣銀龍水務有限公司*	PRC	Registered capital of RMB52,800,000	55%	–	City water supply and water supply infrastructure

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
江河港水務(常州)有限公司(ii)^	PRC	Registered capital of RMB237,000,000	–	40%	City water supply and water supply infrastructure
重慶市永川區橋立水務有限公司#	PRC	Registered capital of RMB200,000,000	100%	–	City water supply and water supply infrastructure
重慶市永川區佳和自來水有限責任公司^	PRC	Registered capital of RMB3,500,000	–	100% (2016: 90%)	City water supply
高安水務有限公司*	PRC	Registered capital of RMB60,000,000	60%	–	City water supply and water supply infrastructure
高安市昌西供水有限公司^	PRC	Registered capital of RMB2,000,000	–	60%	City water supply and water supply infrastructure
高安市八景供水有限公司^	PRC	Registered capital of RMB5,000,000	–	60%	City water supply and water supply infrastructure
高安市新街供水有限公司^	PRC	Registered capital of RMB1,000,000	–	60%	City water supply and water supply infrastructure
高安市沙湖供水有限公司^	PRC	Registered capital of RMB500,000	–	60%	City water supply and water supply infrastructure
高安市瑞西供水有限公司^	PRC	Registered capital of RMB1,000,000	–	60%	City water supply and water supply infrastructure
長沙(中國水務)有限公司*	PRC	Registered capital of RMB200,000,000	–	90%	City water supply and water supply infrastructure
惠州中水水務發展有限公司*	PRC	Registered capital of RMB100,000,000	20%	50%	City water supply and water supply infrastructure
惠州大亞灣溢源淨水有限公司^	PRC	Registered capital of RMB248,612,103	–	59.78%	City water supply and water supply infrastructure

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
河源市水業集團發展有限公司 <sup>^</sup>	PRC	Registered capital of RMB100,000,000	–	62.66%	City water supply and water supply infrastructure
博羅縣長寧閩恒供水有限公司 (i) <sup>#</sup>	PRC	Registered capital of HK\$16,800,000	–	70%	City water supply and water supply infrastructure
東源縣清景供水有限公司 (i) <sup>^</sup>	PRC	Registered capital of RMB20,000,000	–	70%	City water supply and water supply infrastructure
博羅縣羅浮山清景供水有限公司 (i) <sup>^</sup>	PRC	Registered capital of RMB10,000,000	–	70%	City water supply and water supply infrastructure
龍川縣眾誠水務有限公司 (i) <sup>^</sup>	PRC	Registered capital of RMB10,000,000	–	70%	City water supply and water supply infrastructure
深圳市大工業區水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB45,500,000	–	56.04%	City water supply, water supply infrastructure, drainage operation and construction
周口銀龍水務有限公司 <sup>*</sup>	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 <sup>#</sup>	PRC	Registered capital of RMB14,000,000	–	100%	City water supply and water supply infrastructure
河南銀龍(扶溝)供水有限公司 <sup>#</sup>	PRC	Registered capital of RMB14,000,000	–	100%	City water supply and water supply infrastructure
河南銀龍(西華)供水有限公司 <sup>#</sup>	PRC	Registered capital of RMB14,000,000	–	100%	City water supply and water supply infrastructure
廣東仁化銀龍供水有限公司 <sup>*</sup>	PRC	Registered capital of RMB27,260,000	–	73%	City water supply and water supply infrastructure

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 44. 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	
江西萬年銀龍水務 有限責任公司*	PRC	Registered capital of US\$47,090,000	–	100%	City water supply
吉安水務集團有限公司^	PRC	Registered capital of RMB120,000,000	–	70%	City water supply and water supply infrastructure
蘆溪水務有限公司*	PRC	Registered capital of RMB52,308,750	30%	30%	City water supply and water supply infrastructure
萍鄉水務有限公司*	PRC	Registered capital of RMB267,000,000	26%	25%	City water supply and water supply infrastructure
萍鄉市春雨水業有限公司^	PRC	Registered capital of RMB10,000,000	–	51%	City water supply and water supply infrastructure
懷化銀龍水務有限公司*	PRC	Registered capital of RMB30,000,000	30%	56.55%	City water supply and water supply infrastructure
懷化沅辰水務有限公司*	PRC	Registered capital of RMB76,581,697	–	65%	City water supply and water supply infrastructure
九江彭澤銀龍水務有限公司*	PRC	Registered capital of RMB90,454,375	49%	11%	City water supply and water supply infrastructure
運城銀龍水務有限公司^	PRC	Registered capital of RMB85,964,273	–	51%	City water supply and water supply infrastructure
運城市鹽湖區舜源城鄉供 排水有限公司^	PRC	Registered capital of RMB20,000,000	–	51%	City water supply and water supply infrastructure
運城市空港開發區弘益供水 有限公司*	PRC	Registered capital of RMB100,000,000	–	64.52%	City water supply and water supply infrastructure

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
隆堯銀龍水務有限公司 <sup>^</sup>	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 <sup>^</sup>	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 <sup>^</sup>	PRC	Registered capital of RMB80,000,000	–	75%	City water supply and water supply infrastructure
鶴崗三立水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB63,488,000	–	55%	City water supply and water supply infrastructure
武陟國源水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB30,000,000	–	100% (2016: 90%)	City water supply and water supply infrastructure
平頂山石龍區國源水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB25,000,000	–	60% (2016: 54%)	City water supply and water supply infrastructure
葉縣國源水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB15,000,000	–	100% (2016: 90%)	City water supply and water supply infrastructure
分宜銀龍水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB75,000,000	66.67%	33.33%	City water supply and water supply infrastructure
上栗銀龍水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB14,500,000	–	60%	City water supply and water supply infrastructure
鉛山縣銀龍水務有限公司 <sup>#</sup>	PRC	Registered capital of RMB18,000,000	–	100%	City water supply and water supply infrastructure
Yichun Water (i) <sup>#</sup>	PRC	Registered capital of RMB38,000,000	–	100%	City water supply
南昌市進賢縣高橋制水有限公司 (i) <sup>#</sup>	PRC	Registered capital of US\$3,600,000	–	70%	City water supply and water supply infrastructure

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
海南興水城鄉供水有限公司 <sup>^</sup>	PRC	Registered capital of RMB15,830,000	–	56.85%	City water supply
北京江河京威水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB10,000,000	–	70%	City water supply
昌邑鵬昊自來水有限公司*	PRC	Registered capital of RMB21,089,250	–	100% (2016: 70%)	City water supply and water supply infrastructure
青島鵬昊水務有限公司*	PRC	Registered capital of RMB15,791,985	–	100% (2016: 70%)	City water supply and water supply infrastructure
江西銀龍水環境建設有限責任公司 (formerly known as 新余市渝泉水業有限責任公司) <sup>^</sup>	PRC	Registered capital of RMB100,000,000	–	80% (2016: 60%)	City water supply infrastructure
寶雞市金信安水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB42,680,000	–	100%	Sewage treatment
寶雞市陳倉金信安水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB12,000,000	–	100%	Sewage treatment
寶雞市大通水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB5,000,000	–	100%	Sewage treatment
荊州中水環保有限公司*	PRC	Registered capital of US\$8,200,000	100%	–	Sewage treatment
萬年縣中水環保有限公司*	PRC	Registered capital of RMB13,000,000	–	100%	Sewage treatment operation and construction
分宜中水環保有限公司*	PRC	Registered capital of RMB18,000,000	–	100%	Sewage treatment operation and construction
鉛山縣中水環保有限公司*	PRC	Registered capital of US\$2,000,000	–	100%	Sewage treatment operation and construction

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
天津正坤水處理有限公司 <sup>^</sup>	PRC	Registered capital of RMB2,300,000	–	100%	Sewage treatment operation and construction
天津重科水處理有限公司 <sup>^</sup>	PRC	Registered capital of RMB1,000,000	–	100%	Sewage treatment operation and construction
邯鄲市峰峰錦晟污水處理 有限公司 <sup>^</sup>	PRC	Registered capital of RMB1,000,000	–	100%	Sewage treatment operation and construction
邯鄲成晟水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB21,000,000	–	65.68%	Sewage treatment operation and construction
邯鄲市峰峰礦區世晟中水 處理有限公司 <sup>^</sup>	PRC	Registered capital of RMB6,000,000	–	100%	Sewage treatment
鹿邑新晟中水環保有限公司 <sup>^</sup>	PRC	Registered capital of RMB6,000,000	–	100%	Sewage treatment operation and construction
北京同晟水淨化有限公司 <sup>^</sup>	PRC	Registered capital of RMB13,000,000	–	100% (2016: 68%)	Sewage treatment operation and construction
高安新晟中水環保有限公司 <sup>^</sup>	PRC	Registered capital of RMB6,000,000	–	100%	Sewage treatment
常州市大通水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB5,000,000	–	100%	Sewage treatment operation and construction
鎮平新晟中水環保有限公司 <sup>^</sup>	PRC	Registered capital of RMB6,000,000	–	100%	Sewage treatment
惠州大亞灣清源環保有限公司 <sup>^</sup>	PRC	Registered capital of RMB15,000,000	–	70%	Sewage treatment
深圳市大通水務有限公司 <sup>^</sup>	PRC	Registered capital of RMB30,000,000	–	100%	Drainage operation and construction
博羅縣湖鎮生活污水處理有限 公司 (i) <sup>^</sup>	PRC	Registered capital of RMB10,000,000	–	70%	Sewage treatment



# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 44. 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	
博羅縣長寧建恒生活污水處理有限公司 (i)^	PRC	Registered capital of RMB10,000,000	–	70%	Sewage treatment
荊州水務隆錦置業有限公司^	PRC	Registered capital of RMB80,000,000	–	51%	Property development and investment
周口銀龍置業有限公司^	PRC	Registered capital of RMB8,000,000	–	70%	Property development and investment
寧鄉水務置業有限公司^	PRC	Registered capital of RMB20,000,000	–	90%	Property development and investment
長沙意峰房地產開發有限公司^	PRC	Registered capital of RMB8,000,000	–	90%	Property development and investment
新余仙女湖新城旅遊開發有限公司*	PRC	Registered capital of RMB144,948,500	22.77%	40.86%	Development and infrastructure of sightseeing area
新余仙女湖新城房地產開發有限公司^	PRC	Registered capital of RMB20,500,000	–	63.63%	Property development and investment
北京上河元酒店有限公司^	PRC	Registered capital of RMB171,600,000	–	100%	Property investment
北京中水建投資實業有限公司^	PRC	Registered capital of RMB211,350,000	–	100%	Property development and investment

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

# registered as wholly-foreign owned enterprises under the PRC law

^ registered as a limited liability company under the PRC law

(i) acquired/incorporated/established/injected during the year ended 31 March 2017

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

#### (a) General information of principal subsidiaries (Continued)

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.

#### (b) General information of associates

Particulars of the Group's associates with water supply as their principal activities as at 31 March 2017 are as follows:

Name	Place of establishment/ operation	Particulars of registered capital	Group's effective interest held/ profit sharing	Principal activities
廣東市增城自來水有限公司	PRC	RMB167,500,000	40.82%	City water supply and water supply infrastructure
梧州粵海江河水務有限公司	PRC	RMB110,000,000	49%	City water supply
雷州市華洋水務有限公司	PRC	RMB50,000,000	24%	City water supply

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 45. PRIOR YEAR ADJUSTMENTS

In previous years, the Group entered into a number of service concession arrangements with certain government authorities in the PRC in respect of its water supply business. These service concession arrangements generally involve the Group as an operator (i) constructing water supply infrastructure; and (ii) operating and maintaining the water supply infrastructure at a specified level of serviceability on behalf of the relevant government authorities for concession periods. The Group is paid for its services over the relevant service concession periods at prices stipulated through a pricing mechanism.

The Group is generally entitled to use all the property, plant and equipment of the water supply infrastructure. The relevant government authorities as grantors will control and regulate the scope of services the Group must provide with the water supply infrastructure. As at 31 March 2016, most of the water supply infrastructure was classified as property, plant and equipment as management considered that the Group retained the beneficial entitlement to any residual interest in the water supply infrastructure at the end of the term of the service concession periods.

In preparing the consolidated financial statements for the year ended 31 March 2017, the management has reassessed the accounting treatment of those service concession agreements.

In consideration of (1) the opinion from an independent PRC legal adviser on the terms of the concession agreements and other agreements in connection with the Group's water supply business and the relevant laws and regulations in the PRC; (2) management's detailed review and analysis on the terms of those concession and related agreements and (3) the market practice of water supply industry in the PRC, the management is of the view that the below conditions under HK(IFRIC) Interpretation 12 are fulfilled:

- the grantor controls or regulates the water supply service, the Group must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls the residual interest in the water supply infrastructure at the end of the service concession arrangements.

Therefore, the service concession arrangements are in the scope of HK(IFRIC) Interpretation 12.

The management also reassessed the current/non-current classification of the financial assets – receivables under service concession arrangements (previously known as “amounts due from grantors for contract work”) in respect of its sewage treatment business arising from certain service concession arrangement.

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 45. PRIOR YEAR ADJUSTMENTS (Continued)

The following adjustments are made:

### 1. **Reclassification of the water supply infrastructure from property, plant and equipment to other intangible assets**

As the Group receives a right to charge users for 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 water supply infrastructure should be classified as an intangible asset.

Consequently, the water supply infrastructures previously classified as property, plant and equipment was reclassified to other intangible assets in accordance with the policy set out for "Service concession arrangements" in note 2.16 and "Intangible assets (other than goodwill)" in note 2.11. Besides, these intangible assets are amortised on a straight-line basis over the terms of remaining service concession periods.

### 2. **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 concession agreements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in the PRC. Revenue is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The prevailing market rate of gross margin was determined based on the research and analysis conducted by APAC, with reference to the gross profit margins of market comparable companies. Where the construction work was performed by the Group construction subsidiaries, the gross margin of these subsidiaries was also included in the overall gross margin.

### 3. **Reclassification of receivables under service concession arrangements (previously known as "amounts due from grantors for contract work") from current assets to non-current assets**

In previous years, the whole balance of receivables under service concession arrangements was classified as current assets, which was not consistent with the timing of recovery throughout the concession period. As a result, the amount which is expected to be recovered after twelve months from date of the reporting period is reclassified to non-current assets.

The Group's consolidated statement of financial position as at 31 March 2016 and the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the year ended 31 March 2016 and certain explanatory notes have been restated retrospectively to reflect impact of these adjustments.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 45. PRIOR YEAR ADJUSTMENTS (Continued)

Impact on the consolidated statement of comprehensive income for the year ended 31 March 2016:

	<b>As previously reported</b>	<b>Prior year adjustments</b>	<b>As restated</b>
	HK\$'000	HK\$'000	HK\$'000
Revenue	4,032,912	706,990	4,739,902
Cost of sales	(2,132,370)	(509,597)	(2,641,967)
Income tax expense	(304,867)	(100,507)	(405,374)
Profit for the year	1,002,966	96,886	1,099,852
Other comprehensive income			
– Currency translation	(175,672)	(14,393)	(190,065)
Total comprehensive income for the year	<u>788,948</u>	<u>82,493</u>	<u>871,441</u>
Total comprehensive income for the year attributable to:			
Owners of the Company	393,589	44,700	438,289
Non-controlling interests	395,359	37,793	433,152
Basic earnings per share (HK cents)	36.58	3.73	40.31
Diluted earnings per share (HK cents)	<u>36.42</u>	<u>3.72</u>	<u>40.14</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

### 45. PRIOR YEAR ADJUSTMENTS (Continued)

Impact on the consolidated statement of financial position as at 31 March 2016:

	As previously reported HK\$'000	Prior year adjustments HK\$'000	As restated HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	6,715,770	(6,126,015)	589,755
Other intangible assets	763,973	7,277,481	8,041,454
Receivables under service concession arrangements (previously known as "amounts due from grantors for contract work")	–	540,740	540,740
Deferred tax assets	51,621	(51,621)	–
<b>Current assets</b>			
Receivables under service concession arrangements (previously known as "amounts due from grantors for contract work")	570,505	(540,740)	29,765
Deferred tax liabilities	(329,373)	(240,787)	(570,160)
Equity attributable to owners of the Company	4,604,124	659,248	5,263,372
Non-controlling interests	2,983,260	199,810	3,183,070

Impact on the total equity as at 1 April 2015:

	As previously reported HK\$'000	Prior year adjustments HK\$'000	As restated HK\$'000
Equity attributable to owners of the Company	3,923,426	614,548	4,537,974
Non-controlling interests	2,512,715	162,017	2,674,732

### 46. COMPARATIVE AMOUNTS

As further explained in note 45 to the consolidated financial statements, due to the prior year adjustments, the presentation and disclosure of certain items and balances in the financial statements have been revised to comply with the current year's disclosure and accounting treatment. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation, disclosures and accounting treatment and a third consolidated statement of financial position as at 1 April 2015 has been presented.

### 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2017.

## Particulars Of Properties Held For Investment

For the year ended 31 March 2017

Location	Type	Lot number/ Reference number	Lease term
中國江西省新余市清宜公路以南界水河東側	Commercial/ residential	106	40 years/70 years
中國江西省新余市清宜公路以南天仙路東側	Commercial/ residential	107	40 years/70 years
中國江西省新余市仙女湖大道北側	Commercial/ residential	204	40 years/70 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	205	50 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	206	50 years
中國江西省新余市仙女湖大道南側	Commercial/ residential	207	50 years
重慶市永川區大安工業園區	Industrial	GY01870	Expiring on 30 April 2053
重慶市永川區大安工業園區	Industrial	GY02406	Expiring on 27 June 2050
重慶市永川區大安工業園區	Industrial	GY02695	Expiring on 30 April 2053
北京市宣武區南綫閣街68號	Residential	N/A	Expiring on 29 December 2076
北京市宣武區南綫閣街60號	Industrial	N/A	Expiring on 11 June 2058

Note: Insignificant properties held for investment are not included.

## Particulars Of Properties Held Under Development

For the year ended 31 March 2017

Location	Interest attributable to the Group in percentage	Floor area on completion in sq. m. (approx.)	Type of development	Expected year of completion	Stage of completion
荊州市江津東路與三灣路交匯處	51%	92,000	Commercial/ residential	2017	Construction in progress
江西省新余市仙女湖大道北側	63.63%	190,000	Commercial	2018	Construction in progress

Note: Insignificant properties held under development are not included.



## Five-Year Financial Summary

### RESULTS

	2017 HK\$'000	Year ended 31 March			
		2016 HK\$'000 (Restated)	2015 HK\$'000 (Restated)	2014 HK\$'000 (Restated)	2013 HK\$'000 (Restated)
Revenue	<b>5,707,895</b>	4,739,902	3,622,109	3,645,546	3,261,428
Profit before income tax	<b>1,962,625</b>	1,505,226	1,242,018	957,917	898,382
Income tax expense	<b>(583,279)</b>	(405,374)	(346,517)	(265,986)	(271,831)
Profit for the year	<b>1,379,346</b>	1,099,852	895,501	691,931	626,551
Attributable to:					
Owners of the Company	<b>853,634</b>	608,112	532,815	393,587	370,960
Non-controlling interests	<b>525,712</b>	491,740	362,686	298,344	255,591
	<b>1,379,346</b>	1,099,852	895,501	691,931	626,551

### ASSETS AND LIABILITIES

	2017 HK\$'000	At 31 March			
		2016 HK\$'000 (Restated)	2015 HK\$'000 (Restated)	2014 HK\$'000 (Restated)	2013 HK\$'000 (Restated)
Total assets	<b>25,631,709</b>	19,971,063	16,075,613	14,267,971	12,198,399
Total liabilities	<b>(16,668,776)</b>	(11,524,621)	(8,862,907)	(7,980,084)	(6,578,841)
Non-controlling interests	<b>(3,347,629)</b>	(3,183,070)	(2,674,732)	(2,300,446)	(1,907,248)
Equity attributable to owners of the Company	<b>5,615,304</b>	5,263,372	4,537,974	3,987,441	3,712,310