



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

Interim Report 2019/20

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

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

Non-executive

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

Independent Non-executive

Mr. Chau Kam Wing
 Mr. Siu Chi Ming
 Ms. Ho Ping
 Ms. Zhou Nan
 (appointed on 22 November 2019)
 Mr. Ong King Keung
 (resigned on 22 November 2019)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

Clarendon House
 2 Church Street
 Hamilton HM11
 Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F
 Central Plaza
 18 Harbour Road
 Wanchai
 Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited
 Level 54, Hopewell Centre
 183 Queen's Road East
 Hong Kong

LEGAL ADVISERS

As to Bermuda law
 Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

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

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

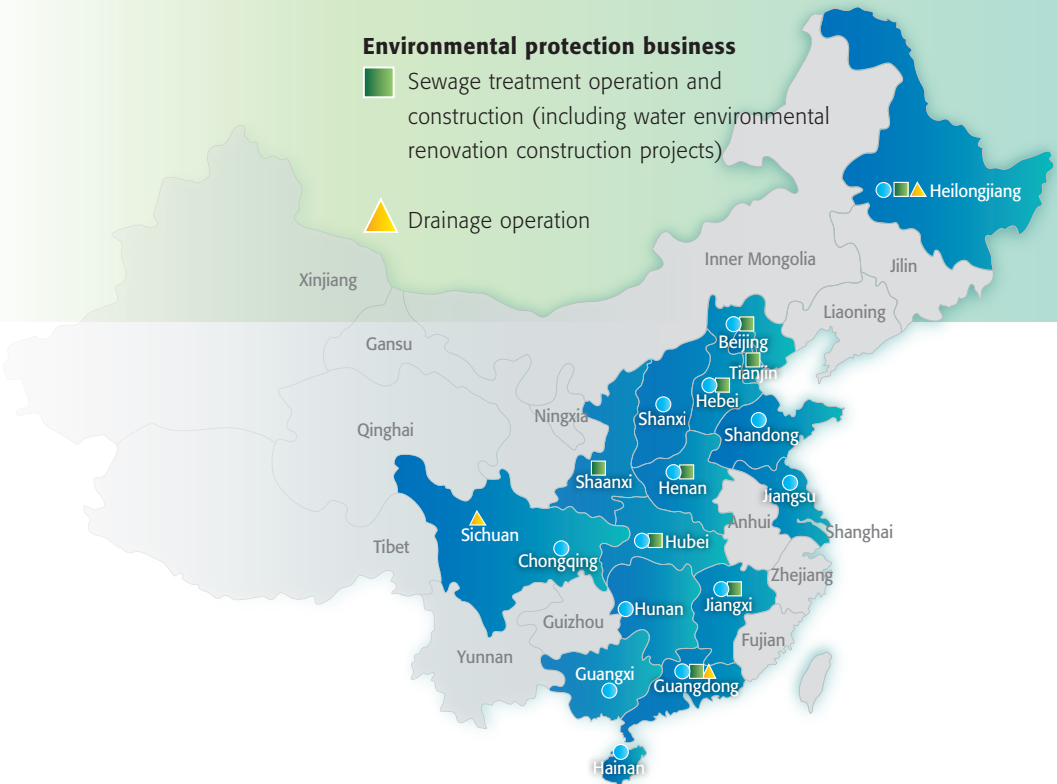
Water supply business

- City water supply operation and construction
 - Connected users of approximately 5.4 million
 - Potential reaching population of approximately 30 million people
 - Water pipelines over 150,000 km

Environmental protection business

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

- ▲ Drainage operation



FINANCIAL HIGHLIGHTS

	Six months ended		Change
	30 September		
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000	
RESULTS HIGHLIGHTS			
Revenue	4,354,710	4,141,820	5.1%
Gross profit	1,862,265	1,820,156	2.3%
Profit for the period	1,283,968	985,783	30.2%
Profit for the period attributable to owners of the Company	881,080	645,810	36.4%
Basic earnings per share (HK cents)	54.83	40.14	36.6%
Diluted earnings per share (HK cents)	54.83	40.14	36.6%
Interim dividend (HK cents)	14	12	16.7%

	As at		Change
	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000	
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	38,420,377	35,824,636	7.2%
Total liabilities	25,247,219	22,922,166	10.1%
Net assets	13,173,158	12,902,470	2.1%
Net assets per share ¹	5.05	4.95	2.0%
Current ratio	1.04	1.13	
Gearing ratio ²	65.7%	64.0%	

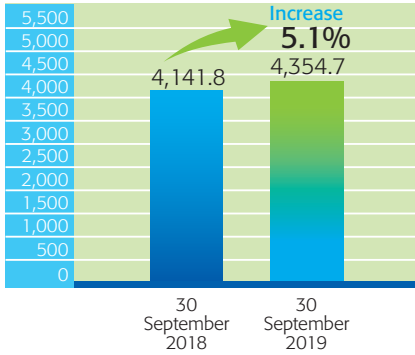
$$^1 \quad \text{Net assets per share} = \frac{\text{Equity attributable to owners of the Company}}{\text{Ordinary shares in issue at period/year end}}$$

$$^2 \quad \text{Gearing ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

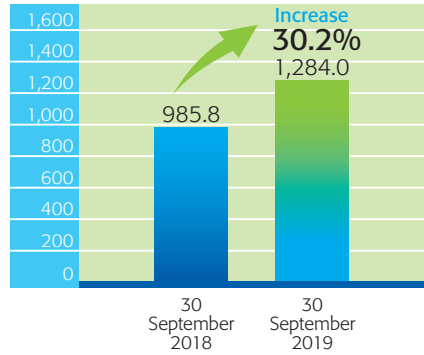
FINANCIAL HIGHLIGHTS

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

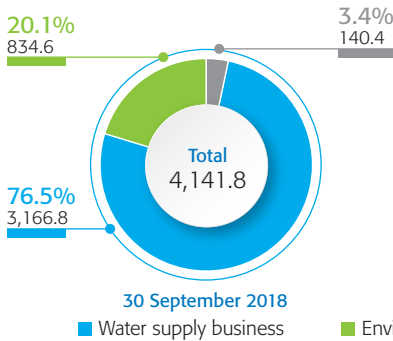
Total revenue (HK\$ million)



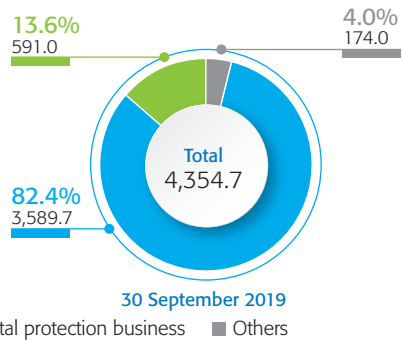
Total profit (HK\$ million)



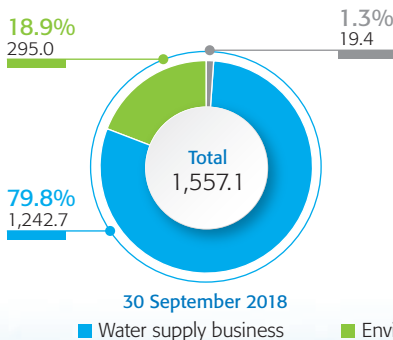
Total segment revenue (HK\$ million)



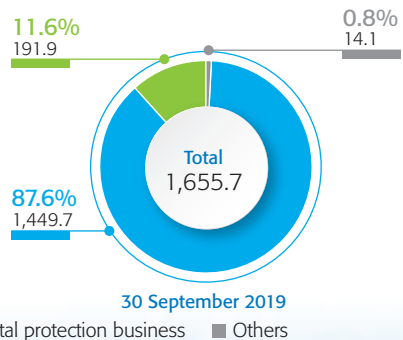
Total segment revenue (HK\$ million)



Total segment profit (HK\$ million)

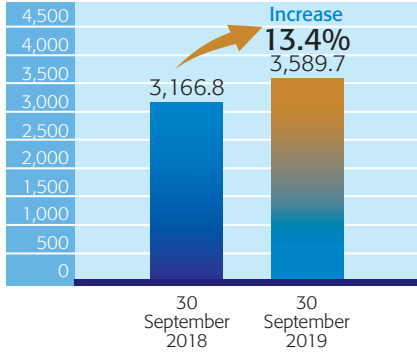


Total segment profit (HK\$ million)

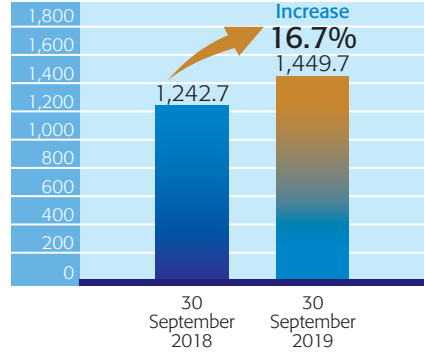


1. Water Supply Business Analysis

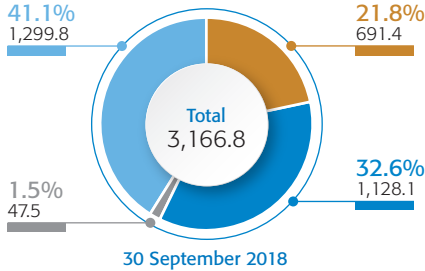
Revenue (HK\$ million)



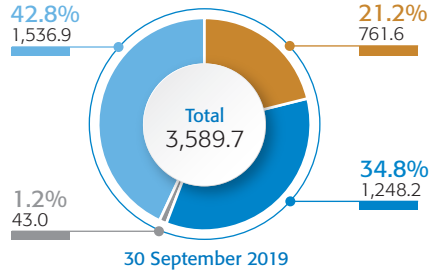
Profit (HK\$ million)



Revenue by nature (HK\$ million)



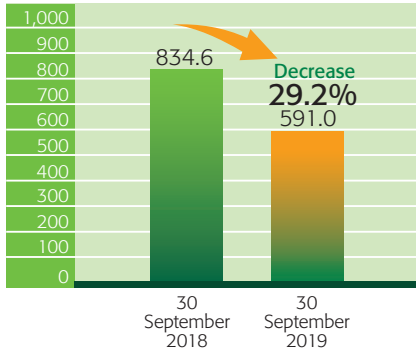
Revenue by nature (HK\$ million)



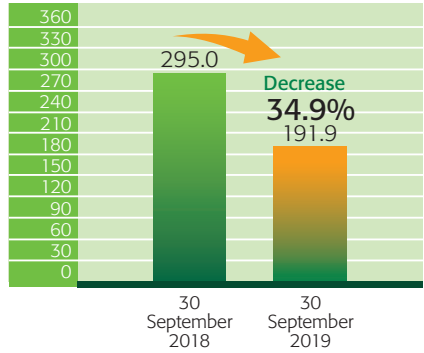
■ Water supply operation services ■ Water supply connection income ■ Water supply construction services ■ Others

2. Environmental Protection Business Analysis

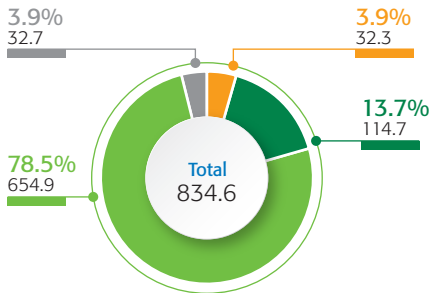
Revenue (HK\$ million)



Profit (HK\$ million)

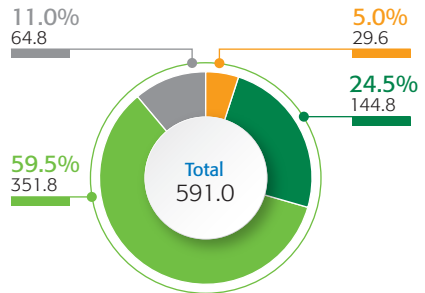


Revenue by nature (HK\$ million)



30 September 2018

Revenue by nature (HK\$ million)



30 September 2019

- Sewage treatment operation services
- Drainage operation services
- Sewage treatment and water environmental renovation construction services
- Others

The board of directors (the “Board”) of China Water Affairs Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2019, together with the comparative figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
	<i>Notes</i>	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Revenue	6	4,354,710	4,141,820
Cost of sales		(2,492,445)	(2,321,664)
Gross profit		1,862,265	1,820,156
Other income	6	207,509	103,674
Selling and distribution costs		(98,919)	(91,668)
Administrative expenses		(361,813)	(324,090)
Gain on disposal of subsidiaries, net		878	6,071
Operating profit	8	1,609,920	1,514,143
Finance costs	9	(239,523)	(177,203)
Share of results of associates		291,389	30,387
Profit before income tax		1,661,786	1,367,327
Income tax expense	10	(377,818)	(381,544)
Profit for the period		1,283,968	985,783

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

		Six months ended 30 September	
		2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
<i>Notes</i>			
Profit for the period attributable to:			
Owners of the Company		881,080	645,810
Non-controlling interests		402,888	339,973
		<u>1,283,968</u>	<u>985,783</u>
Earnings per share for profit attributable to owners of the Company during the period			
	11	HK cents	HK cents
Basic		<u>54.83</u>	<u>40.14</u>
Diluted		<u>54.83</u>	<u>40.14</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Profit for the period	1,283,968	985,783
Other comprehensive income		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	(643,847)	(458,039)
– Recycling of currency translation differences upon disposal of subsidiaries	(313)	(5,363)
<i>Items that will not be reclassified to profit or loss:</i>		
– Change in fair value of financial assets at fair value through other comprehensive income	10,227	–
– Share of other comprehensive income of associates	(6,617)	–
Other comprehensive loss for the period, net of tax	(640,550)	(463,402)
Total comprehensive income for the period	643,418	522,381
Total comprehensive income attributable to:		
Owners of the Company	392,782	313,226
Non-controlling interests	250,636	209,155
	643,418	522,381

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at		
		30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000	
Notes				
ASSETS AND LIABILITIES				
Non-current assets				
	Property, plant and equipment	13	2,081,026	2,019,900
	Prepaid land lease payments	3	–	901,423
	Right-of-use assets	3, 13	1,102,841	–
	Investment properties		1,014,136	912,335
	Interests in associates	14	2,080,757	676,035
	Financial assets at fair value through other comprehensive income		365,730	349,225
	Goodwill		1,241,981	1,220,394
	Other intangible assets	13	16,120,815	15,293,235
	Prepayments, deposits and other receivables	16	1,065,881	1,500,105
	Contract assets		837,060	540,779
	Receivables under service concession arrangements		1,037,845	1,079,365
			26,948,072	24,492,796
Current assets				
	Properties under development		1,353,107	1,273,890
	Properties held for sale		782,650	816,189
	Inventories		640,618	530,990
	Contract assets		205,365	233,484
	Receivables under service concession arrangements		61,360	61,967
	Trade and bills receivables	15	1,206,031	1,242,864
	Financial assets at fair value through profit or loss		393,903	489,340
	Due from non-controlling equity holders of subsidiaries		345,169	288,194
	Due from associates		130,469	227,416
	Prepayments, deposits and other receivables	16	1,596,144	1,549,667
	Pledged deposits		746,287	644,524
	Cash and cash equivalents		4,011,202	3,973,315
			11,472,305	11,331,840

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
	Notes		
Current liabilities			
Lease liabilities	3	36,747	–
Contract liabilities		891,133	648,134
Trade and bills payables	17	2,862,825	2,410,098
Accrued liabilities, deposits received and other payables	18	2,328,003	1,979,082
Due to associates		48,106	46,093
Borrowings	19	3,263,156	3,437,483
Due to non-controlling equity holders of subsidiaries		206,862	219,048
Provision for tax		1,378,802	1,278,874
		11,015,634	10,018,812
Net current assets			
		456,671	1,313,028
Total assets less current liabilities			
		27,404,743	25,805,824
Non-current liabilities			
Borrowings	19	12,489,993	11,494,131
Lease liabilities	3	170,728	–
Contract liabilities		268,249	273,133
Due to non-controlling equity holders of subsidiaries		196,663	27,784
Deferred government grants		208,510	225,583
Deferred tax liabilities		897,442	882,723
		14,231,585	12,903,354
Net assets			
		13,173,158	12,902,470

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
	Notes		
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	16,040	16,089
Reserves		8,091,648	7,954,377
		8,107,688	7,970,466
Non-controlling interests		5,065,470	4,932,004
Total equity		13,173,158	12,902,470

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Net cash inflow from operating activities	1,530,208	1,019,600
Net cash outflow from investing activities	(2,365,865)	(1,625,979)
Net cash inflow from financing activities	908,790	1,880,367
Increase in cash and cash equivalents	73,133	1,273,988
Cash and cash equivalents at beginning of period	3,973,315	2,511,390
Effect of foreign exchange rates, net	(35,246)	22,500
Cash and cash equivalents at end of period	<u>4,011,202</u>	<u>3,807,878</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>4,011,202</u>	<u>3,807,878</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company											Total equity HK\$'000	
	Share capital HK\$'000	Proposed dividend HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000	Other reserves HK\$'000	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		Non-controlling interests HK\$'000
Balance at 1 April 2019	16,089	257,424	3,064	661,918	5,484	96,808	(220,028)	108,617	479,193	6,561,897	7,970,466	4,932,004	12,802,470
Share repurchase (note 21)	(49)	-	-	(34,168)	-	-	-	-	-	-	(34,217)	-	(34,217)
Share repurchase expenses (note 21)	-	-	-	(119)	-	-	-	-	-	-	(119)	-	(119)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	32,940	32,940
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	40,375	-	-	-	40,375	(117,036)	(76,661)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(31)	31	-	(140)	(140)
Deemed disposal of a subsidiary	-	-	-	-	-	-	(4,954)	-	-	-	(4,954)	4,954	-
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	81,704	81,704
Final dividend approved	-	(257,424)	-	779	-	-	-	-	-	-	(256,645)	-	(256,645)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(119,592)	(119,592)
Transactions with owners	(49)	(257,424)	-	(33,508)	-	-	35,421	-	(31)	31	(255,560)	(117,170)	(372,730)
Proposed interim dividend	-	224,564	-	(224,564)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve (note 21)	-	-	49	-	-	-	-	-	-	(49)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	881,080	881,080	402,888	1,283,968
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	10,227	-	-	10,227	-	10,227
- Currency translation	-	-	-	-	(491,595)	-	-	-	-	-	(491,595)	(152,252)	(643,847)
- Share of other comprehensive income of associates	-	-	-	-	-	-	511	(7,128)	-	-	(6,617)	-	(6,617)
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	(313)	-	-	-	-	-	(313)	-	(313)
Total comprehensive income/(loss) for the period	-	-	-	-	(491,908)	-	511	3,099	-	881,080	392,782	250,636	643,418
Balance at 30 September 2019 (unaudited)	16,040	224,564	3,113	403,846	(496,424)	96,808	(184,096)	111,716	479,162	7,442,959	8,107,688	5,065,470	13,175,158

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Equity attributable to owners of the Company

	Share capital	Proposed dividend	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Financial assets at fair value through other comprehensive income revaluation reserve/ Available-for-sale financial assets revaluation reserve	Statutory reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2018 (as previously reported)	16,089	241,335	995,193	3,064	117,217	353,809	96,808	(326,786)	-	354,751	5,317,104	7,168,584	3,985,825	11,154,409
Effect on adoption of HKFRS 9	-	-	-	-	-	-	-	-	48,617	-	-	48,617	-	48,617
At 1 April 2018 (as restated)	16,089	241,335	995,193	3,064	117,217	353,809	96,808	(326,786)	48,617	354,751	5,317,104	7,217,201	3,985,825	11,203,026
Share premium reduction arising from acquisition of subsidiaries	-	-	(995,193)	-	995,193	-	-	-	-	-	-	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	124,101	124,101
Disposal of subsidiaries	-	-	-	-	-	-	-	(75,167)	-	-	-	(75,167)	(16,110)	(91,277)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(116,014)	(116,014)
Final dividend approved	-	(241,335)	-	-	-	-	-	-	-	-	-	(241,335)	-	(241,335)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(81,119)	(81,119)
Transactions with owners	-	(241,335)	(995,193)	-	995,193	-	-	(75,167)	-	-	-	(316,502)	(22,807)	(339,309)
Proposed interim dividend	-	193,068	-	-	(193,068)	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	645,810	645,810	339,973	985,783
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Currency translation	-	-	-	-	-	(327,221)	-	-	-	-	-	(327,221)	(130,818)	(458,039)
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	(5,363)	-	-	-	-	-	(5,363)	-	(5,363)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(332,584)	-	-	-	-	645,810	313,226	209,155	522,301
Balance at 30 September 2018 (unaudited)	16,089	193,068	-	3,064	919,342	21,225	96,808	(401,953)	48,617	354,751	5,962,914	7,213,925	4,172,173	11,386,098

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. Principal accounting policies

The principal accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2019 except for the adoption of the new standards and amendments to HKFRSs issued by the HKICPA that have become effective for accounting period beginning on 1 April 2019.

In the current interim period, the Group has applied the following new standard and amendments to HKFRSs issued by HKICPA:

		Effective for accounting periods beginning on or after
Annual Improvements Project	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019

The impacts of the adoption of HKFRS 16 are disclosed in note 3 below. The amendments to standards and interpretations adopted by the Group did not have any impact on the Group’s accounting policies.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of the new and revised standards, amendments or interpretations to the Group but is not yet in a position to state whether they would have material financial impact on the Group’s results of operations and financial position.

3. Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 “Leases” (“HKFRS 16”) on the Group’s financial information and the new accounting policies that have been applied from 1 April 2019.

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparative information, as permitted under the specific transitional provisions under HKFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 April 2019.

(a) *Adjustments recognised on the adoption of HKFRS 16*

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

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

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

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

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

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

	30 September 2019 (unaudited) HK\$'000	1 April 2019 (unaudited) HK\$'000
Leasehold land and land use right	897,710	901,423
Buildings	205,131	230,248
Total right-of-use assets	<u>1,102,841</u>	<u>1,131,671</u>

The change in accounting policy affected the right-of-use assets and lease liabilities, and both increased by HK\$230.2 million on 1 April 2019. In addition, prepaid land lease payments of HK\$901.4 million were reclassified to right-of-use assets on 1 April 2019. There was no material impact on retained earnings on 1 April 2019.

PRACTICAL EXPEDIENTS APPLIED

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- the use of recognition exemption to leases with a remaining lease term of 12 months or less at 1 April 2019.
- the use of recognition exemption to leases for which the underlying asset is of low value.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- the use of hindsight in determining lease term at the date of initial application.

(b) *The Group's leasing activities and how these are accounted for*

The Group leases certain of its leasehold land, properties and plant and machinery. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of the financial year ended 31 March 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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 right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate (being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions) is used.

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

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

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

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

4. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2019.

5. Financial risk management and fair value measurements

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2019.

There have been no changes in the risk management policies since year ended 31 March 2019.

5.2 Fair value estimation

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).

The following table presents the Group's financial assets that are measured at fair value at 30 September 2019:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income	13,701	–	352,029	365,730
Financial assets at fair value through profit or loss	721	–	393,182	393,903
Net fair values (unaudited)	14,422	–	745,211	759,633

The following table presents the Group's financial assets that are measured at fair value at 31 March 2019:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income	13,701	–	335,524	349,225
Financial assets at fair value through profit or loss	692	–	488,648	489,340
Net fair values (audited)	14,393	–	824,172	838,565

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.

5.3 Information about Level 3 fair value measurement

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

Financial assets at 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.

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

	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
Financial assets at fair value through other comprehensive income:		
Opening balance	335,524	–
Adoption of HKFRS 9	–	211,364
Opening balance (as restated)	335,524	211,364
Residual interest in a subsidiary disposed of	–	65,786
Purchase of financial assets at fair value through other comprehensive income	17,659	–
Changes in fair value recognised in other comprehensive income	10,227	60,000
Acquisition of subsidiaries	57	4,118
Exchange realignment	(11,438)	(5,744)
Ending balance	352,029	335,524
Financial assets at fair value through profit or loss:		
Opening balance	488,648	396,342
Net (disposal)/purchase of financial assets at fair value through profit or loss	(95,466)	92,306
Ending balance	393,182	488,648

6. Revenue and other income

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

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Revenue:		
Water supply operation services	1,248,212	1,128,073
Water supply connection income	761,578	691,441
Water supply construction services	1,536,915	1,299,785
Sewage treatment and drainage operation services	174,406	147,016
Sewage treatment and water environmental renovation construction services	351,808	654,875
Sales of properties	88,205	73,399
Sales of goods	12,111	7,077
Hotel and rental income	48,372	47,163
Finance income	21,951	12,987
Handling income	15,333	11,438
Others	95,819	68,566
Total	<u>4,354,710</u>	<u>4,141,820</u>
Other income:		
Interest income	56,807	41,787
Government grants and subsidies*	105,537	26,307
Amortisation of deferred government grants	4,703	2,174
Gain on disposal of property, plant and equipment, net	6,544	–
Dividend income from financial assets	10,432	8,833
Miscellaneous income	23,486	24,573
Total	<u>207,509</u>	<u>103,674</u>

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

7. Segment information

The Group has identified the following reportable segments:

- (i) "City water supply operation and construction" involves the provision of water supply operation and construction services;
- (ii) "Environmental protection" involves the provision of sewage treatment and drainage operation and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management; and
- (iii) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

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

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except that finance costs, share of results of associates, corporate income, corporate expense, income tax expense, gain on disposal of subsidiaries, net are excluded from segment results.

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

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.

For the period ended 30 September 2019

	City water supply operation and construction (unaudited) HK\$'000	Environmental protection (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue					
From external customers	3,589,694	590,965	106,230	67,821	4,354,710
From inter-segment	-	-	-	-	-
Segment revenue	<u>3,589,694</u>	<u>590,965</u>	<u>106,230</u>	<u>67,821</u>	<u>4,354,710</u>
Segment profit	<u>1,449,730</u>	<u>191,922</u>	<u>13,240</u>	<u>841</u>	<u>1,655,733</u>
Unallocated corporate income					69,292
Unallocated corporate expense					(115,983)
Gain on disposal of subsidiaries, net					878
Finance costs					(239,523)
Share of results of associates	31,466	260,416	-	(493)	<u>291,389</u>
Profit before income tax					1,661,786
Income tax expense					<u>(377,818)</u>
Profit for the period					<u>1,283,968</u>
Total segment assets	<u>20,876,657</u>	<u>3,360,606</u>	<u>3,432,220</u>	<u>2,285,369</u>	<u>29,954,852</u>

For the period ended 30 September 2018

	City water supply operation and construction (unaudited) HK\$'000	Environmental protection (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue					
From external customers	3,166,836	834,557	91,722	48,705	4,141,820
From inter-segment	—	—	—	—	—
Segment revenue	<u>3,166,836</u>	<u>834,557</u>	<u>91,722</u>	<u>48,705</u>	<u>4,141,820</u>
Segment profit	<u>1,242,658</u>	<u>294,983</u>	<u>17,212</u>	<u>2,269</u>	1,557,122
Unallocated corporate income					50,755
Unallocated corporate expense					(99,805)
Gain on disposal of subsidiaries					6,071
Finance costs					(177,203)
Share of results of associates	28,461	195	(711)	2,442	<u>30,387</u>
Profit before income tax					1,367,327
Income tax expense					<u>(381,544)</u>
Profit for the period					<u>985,783</u>
Total segment assets	<u>17,557,694</u>	<u>2,783,479</u>	<u>3,125,607</u>	<u>2,017,136</u>	<u>25,483,916</u>

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.

8. Operating profit

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Depreciation of property, plant and equipment	35,142	25,804
Depreciation of right-of-use assets	29,205	–
Amortisation of prepaid land lease payments	–	10,601
Amortisation of other intangible assets	239,691	198,248

9. Finance costs

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Interest on bank loans	311,240	192,690
Interest on other loans	80,576	110,048
Interest on lease liabilities	5,354	–
Total borrowing costs	397,170	302,738
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(157,647)	(125,535)
	239,523	177,203

10. Income tax expense

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2018: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Current income tax: – the PRC (<i>Note</i>)	333,312	344,652
Deferred tax	44,506	36,892
Total income tax expense	377,818	381,544

Note: The provision for PRC current income tax is based on a statutory income tax rate of 25% (2018: 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% (2018: 15%) of their assessable income.

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 period attributable to owners of the Company of HK\$881,080,000 (2018: HK\$645,810,000) and the weighted average of 1,606,933,000 (2018: 1,608,901,000) ordinary shares in issue during the period.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 30 September 2019 and 2018.

12. Dividend

Dividend attributable to the interim period:

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Interim dividend		
– HK\$0.14 (2018: HK\$0.12) per ordinary share	224,564	193,068

The interim dividend proposed after the reporting date for the financial period ended 30 September 2019 and 2018 were not recognised as a liability at the reporting date.

13. Property, plant and equipment, right-of-use assets and other intangible assets

During the six months ended 30 September 2019, the addition in property, plant and equipment amounted to HK\$144,649,000 (31 March 2019: HK\$244,615,000); right-of-use assets amounted to HK\$14,299,000 (31 March 2019: HK\$Nil); and other intangible assets amounted to HK\$1,524,925,000 (31 March 2019: HK\$2,619,549,000).

14. Interests in associates

During the six months ended 30 September 2019, the Group acquired 600,000,000 ordinary shares of Kangda International Environmental Company Limited (“Kangda International”) at the price of HK\$2.00 per share, representing its 29.52% equity interest, at a total consideration of HK\$1,200,000,000. The shares of Kangda International are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (stock code: 6136) and it was accounted for as an associate of the Group since 4 April 2019. Excess of share of the net fair value of associate’s identifiable assets and liabilities over the cost of the investment of HK\$214,776,000 was included in the share of results of associates.

The carrying amount of interests in associates has changed as follows in the six months to 30 September 2019:

	Six months ended 30 September
	2019 (unaudited) HK\$'000
Opening balance	676,035
Additions	1,200,000
Disposals	(12,067)
Credited to profit or loss	291,389
Charged to other comprehensive income	(6,617)
Dividend paid	(11,699)
Exchange realignment	(56,284)
Ending balance	2,080,757

15. Trade and bills receivables

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

	As at	
	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
0 to 90 days	566,744	612,672
91 to 180 days	99,146	167,899
Over 180 days	540,141	462,293
	<u>1,206,031</u>	<u>1,242,864</u>

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for construction projects for which settlement is made in accordance with the terms specified in the contracts governing the relevant transactions.

16. Prepayments, deposits and other receivables

		As at	
	<i>Notes</i>	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
Non-current			
Deposits for acquisition of equity securities		42,409	26,267
Prepayments and other receivables	(i)	1,023,472	1,473,838
		<u>1,065,881</u>	<u>1,500,105</u>
Current			
Prepayments		173,936	201,965
Other receivables	(ii)	1,422,208	1,347,702
		<u>1,596,144</u>	<u>1,549,667</u>

Notes:

- (i) As at 30 September 2019, the balances mainly represented the prepayments for city water supply and water environmental renovation construction.

As at 31 March 2019, the balances mainly included an earnest money which bore interest rate at 8.0% per annum for the proposed acquisition of 29.52% equity interest in Kangda International amounting to HK\$588,235,000 and the proposed acquisition was completed on 4 April 2019 (note 14). The remaining balances mainly represented the prepayments for city water supply and water environmental renovation construction.

- (ii) The balances mainly represented receivables from customers for sewage treatment fees and various municipal service charges on behalf of certain government authorities in the PRC; receivables from certain government authorities for funds advancements; and various other receivables.

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.

17. Trade and bills payables

The ageing analysis of trade and bills payables based on invoice dates is as follows:

	As at	
	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
0 to 90 days	1,751,118	1,678,905
91 to 180 days	244,447	308,239
Over 180 days	867,260	422,954
	<u>2,862,825</u>	<u>2,410,098</u>

The credit terms of trade and bills payables vary according to the terms agreed with different suppliers.

As at 30 September 2019, the bills payables of HK\$208,758,000 (31 March 2019: HK\$220,211,000) were secured by the pledged bank deposits of HK\$78,964,000 (31 March 2019: HK\$76,965,000).

18. Accrued liabilities, deposits received and other payables

	As at	
	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
Accrued liabilities	415,510	374,985
Deposits received	69,499	64,514
Other payables (<i>Note</i>)	1,842,994	1,539,583
	<u>2,328,003</u>	<u>1,979,082</u>

Note: Other payables mainly included water supply and sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$473,868,000 (31 March 2019: HK\$413,554,000), payables for other PRC tax surcharges and construction costs, and payables for the Company's final dividend of HK\$256,645,000 (31 March 2019: HK\$ Nil).

19. Borrowings

	Original currency	As at	
		30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
Current			
Bank loans – unsecured	RMB	739,162	713,174
Bank loans – secured	RMB	1,307,461	914,359
Bank loans – unsecured	USD	975,267	1,104,747
Other loans – unsecured	RMB	26,420	28,412
Other loans – secured	RMB	–	476,471
Other loans – unsecured	USD	18,353	–
Other loans – secured	USD	62,400	62,400
Government loans – unsecured	RMB	134,093	137,920
		3,263,156	3,437,483
Non-current			
Bank loans – unsecured	RMB	1,207,643	1,322,440
Bank loans – secured	RMB	2,447,584	2,221,490
Bank loans – unsecured	USD	5,752,338	5,112,621
Other loans – unsecured	RMB	340,204	351,885
Other loans – unsecured	USD	2,586,631	2,288,540
Other loans – secured	USD	29,101	59,365
Government loans – unsecured	RMB	126,492	137,790
		12,489,993	11,494,131
		15,753,149	14,931,614

20. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2019 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over shares of certain subsidiaries of the Group;
- (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2019 was HK\$109,120,000 (31 March 2019: HK\$798,255,000);
- (d) charges over prepaid land lease payments in which their aggregate carrying amount as at 31 March 2019 was HK\$336,809,000;
- (e) charges over the right-of-use assets in which their aggregate carrying amount as at 30 September 2019 was HK\$190,978,000 (31 March 2019: HK\$Nil);
- (f) charges over investment properties in which their aggregate carrying amount as at 30 September 2019 was HK\$304,432,000 (31 March 2019: HK\$315,176,000);
- (g) charges over properties held for sale in which their aggregate carrying amount as at 30 September 2019 was HK\$47,727,000 (31 March 2019: HK\$Nil);
- (h) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2019 was HK\$954,448,000 (31 March 2019: HK\$933,356,000);
- (i) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 30 September 2019 was HK\$237,500,000 (31 March 2019: HK\$235,294,000); and
- (j) charges over the Group's bank deposits in amount of HK\$746,287,000 as at 30 September 2019 (31 March 2019: HK\$644,524,000).

21. Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 30 September 2019 and 31 March 2019	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 31 March 2018 and at 31 March 2019		
(audited)	1,608,901	16,089
Repurchased and cancelled (<i>Note</i>)	<u>(4,872)</u>	<u>(49)</u>
At 30 September 2019 (unaudited)	<u>1,604,029</u>	<u>16,040</u>

Note: During the six month ended 30 September 2019, the Company repurchased a total of 4,872,000 ordinary shares of the Company at an aggregate cost of approximately HK\$34,217,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$7.46 and HK\$6.08 per share respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the contributed surplus. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

22. Related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim report, the Group had the following material related party transactions during the interim period:

Compensation of key management personnel of the Group:

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	35,643	35,428
– Retirement scheme contribution	336	349
	35,979	35,777

23. Commitments and guarantees

(i) Capital commitments

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

	As at	
	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
Contracted, but not provided for		
– Other intangible assets	509,631	332,477
– Property, plant and equipment	14,809	20,844
	524,440	353,321

(ii) *Operating lease arrangement*

The Group leases its investment properties under operating lease arrangements for terms ranging from 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:

	As at	
	30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
Within one year	33,398	37,557
In the second to fifth years, inclusive	43,923	52,591
After five years	1,551	5,631
	78,872	95,779

- (iii) As at 30 September 2019, the Group had given guarantees to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$1,481,000 (31 March 2019: HK\$1,722,000).

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

24. Contingent liabilities

At the reporting date, the Group had no material contingent liabilities.

BUSINESS REVIEW, CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.14 per ordinary share (2018: HK\$0.12 per ordinary share) for the six months ended 30 September 2019. The interim dividend is expected to be paid on or about Friday, 31 January 2020 to the shareholders whose names appear on the register of members on Wednesday, 18 December 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16 December 2019 to Wednesday, 18 December 2019 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the interim dividend for the six months ended 30 September 2019, 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, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 13 December 2019.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$4,141.8 million for the six months ended 30 September 2018 to HK\$4,354.7 million for the six months ended 30 September 2019, representing a steady increase of 5.1%. The Group continued its strategy to focus on core business. For the period under review, the Group recorded a steady growth in its "City water supply operation and construction" and "Environmental protection" segments. The total revenue attributable to the "City water supply operation and construction" and "Environmental protection" segments increased from HK\$4,001.4 million to HK\$4,180.7 million. This represented a steady and continuous growth of segments revenue by 4.5%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

(i) Water Supply Business Analysis

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 period under review, the revenue from city water supply operation and construction segment amounted to HK\$3,589.7 million (2018: HK\$3,166.8 million), representing a steady increase of 13.4% as compared with the last corresponding period. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,449.7 million (2018: HK\$1,242.7 million), representing a steady increase of 16.7% as compared with the last corresponding period. This was mainly because of increase in volume of water sold, procurement of more construction and connection work driven by the continuation of urban-rural 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 period.

(ii) Environmental Protection Business Analysis

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

For the period under review, the revenue from environmental protection segment amounted to HK\$591.0 million (2018: HK\$834.6 million), representing a significant decrease of 29.2% as compared with the last corresponding period. The environmental protection segment profit (including sewage treatment and drainage operating and construction, solid waste and hazardous waste business, environmental sanitation and water environment management) amounted to HK\$191.9 million (2018: HK\$295.0 million), representing a significant decrease of 34.9% as compared with the last corresponding period. This was mainly due to the decrease in the work for upgrade of facilities for higher operating standard and water environmental renovation construction services in current period.

(iii) Property Business Analysis

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

For the period under review, the revenue from the property business segment amounted to HK\$106.2 million (2018: HK\$91.7 million). The total property business segment profit amounted to HK\$13.2 million (2018: HK\$17.2 million), representing a decrease of 23.3% as compared with the last corresponding period. This was mainly due to the decrease of profit margin in sales of property projects in current period.

The Group acquired 600,000,000 ordinary shares of Kangda International Environmental Company Limited (“Kangda International”) at the price of HK\$2.00 per share, representing its 29.52% equity interest, at a total consideration of HK\$1.2 billion in April 2019. The audited net asset value per ordinary share of Kangda International attributable to the shareholders as at 31 December 2018 was approximately RMB2.02 (equivalent to approximately HK\$2.35). The shares of Kangda International are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 6136) and it was accounted for as an associate of the Group during the period under review. During the period under review, the total contribution to the Group by Kangda International amounting to HK\$259.6 million, which comprised the excess of the investor’s share of the net fair value of associate’s identifiable assets and liabilities over the cost of the investment of HK\$214.8 million and share of post-acquisition results of Kangda International of HK\$44.8 million, was included in the share of results of associates.

For the corresponding period under review, the Group recorded a gain on disposal of subsidiaries amounting to HK\$6.1 million, which was mainly because of the disposal of 55% equity interest in 江西仙女湖旅游股份有限公司. The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing its core businesses in China.

PROSPECTS

Although the global economy is slowing down, China's economy is expected to maintain stable development. Given the healthy and rapid development of urbanisation in the country, there is a pressing need for the upgrading and capacity expansion of water infrastructure, thus creating huge and sustainable opportunities for the growth of water industry.

In the middle of this year, the State Council issued the "Regulations on Government Investments", and the Ministry of Finance issued earlier this year the "Opinions on Promoting the Normative Development of Public-Private Partnership". They call for further deepening of the reforms in government investment and financing systems, and clearly define the respective roles of government investments and social capital investments in public service infrastructures. With the increasing government support to private enterprises' participation in public services, the Company is in a better position to invest in more market-oriented water projects and steadily improve the return of such projects.

Looking forward, the Group shall continue to expand its business through the long-term public-private partnership which has been actively promoted by the government. As to infrastructure and public services, it shall deepen cooperation with local governments, and make joint efforts to enhance its overall services capability in the value chain of urban water supply and water services as well as the efficiency and quality of its all-round services. As to the direction of future business development, the Group shall focus on the development of its core water supply business, and adhere to the two core development strategies, namely urban-rural water supply integration and supply-drainage integration. It shall accelerate the development of its value-added businesses of secondary water supply and direct drinking water, and improve the smart pipeline network system in order to enhance its core competitiveness and provide better services to the society and people. As a public utility company, the Group shall continue to generate stable cash flow and create higher returns for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2019, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$4,757.5 million (31 March 2019: HK\$4,617.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 65.7% (31 March 2019: 64.0%) as at 30 September 2019. The current ratio is 1.04 times (31 March 2019: 1.13 times) as at 30 September 2019. 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 30 September 2019, the Group has employed approximately 8,600 staff. Most of them are 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2019, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Shares, Underlying Shares and Debentures

Name of director	Capacity/Nature of interest	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Notes (i) & (ii))	Corporate and personal	470,880,301	–	29.36%
Ms. Ding Bin	Personal	5,500,000	–	0.34%
Ms. Liu Yu Jie	Personal	12,000,000	–	0.75%
Mr. Li Zhong (Notes (iii) & (iv))	Personal	37,627,457	–	2.35%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.27%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.05%
Ms. Wang Xiaoqin	Personal	8,660,000	–	0.54%
Ms. Ho Ping	Personal	978,000	–	0.06%

Notes:

- (i) These 470,880,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited ("AFRL"), which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 252,836,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) Mr. Duan Chuan Liang is also interested in USD3,000,000 senior notes of the Company due 2022 through AFRL.
- (iii) These 37,627,457 shares consist of 8,420,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.
- (iv) Mr. Li Zhong is also interested in 0.64% equity interest in Shenzhen Gold Tact Environmental Holdings Co. Ltd (a non-wholly owned subsidiary of the Company) through Total Happy Investment Limited, his controlled corporation.

Other than as disclosed 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 contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2019, so far as is known to any director or chief executive of the Company, the following persons had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholder	Capacity/Nature of interest	Number of shares			Approximate percentage of shareholding in the Company		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	470,880,301	-	-	29.36%	-	-
Asset Full Resources Limited (Note)	Beneficial	218,044,301	-	-	13.59%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	18.15%	-	-

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

Save as disclosed above, as at 30 September 2019, so far as is known to any director or chief executive of the Company, no person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

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 six months ended 30 September 2019, 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 (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

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

Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the role of the chairman provides the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of Board should not be subject to retirement by rotation.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 6 September 2019 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 six months ended 30 September 2019 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2019, the Company repurchased its own shares on the Stock Exchange as follows:

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

During the period ended 30 September 2019, the Company repurchased and cancelled a total of 4,872,000 ordinary shares of HK\$0.01 each in the capital of the Company. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the contributed surplus of the Company.

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

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

AUDIT COMMITTEE

The Audit Committee which comprises the four independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2019 with the directors.

On behalf of the Board
China Water Affairs Group Limited
Duan Chuan Liang
Chairman

Hong Kong, 27 November 2019

As at the date of this report, the Board comprises five executive Directors, being Mr. Duan Chuan Liang, Ms. Ding Bin, Ms. Liu Yu Jie, Mr. Li Zhong and Mr. Duan Jerry Linnan, four non-executive Directors, being Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi, Mr. Makoto Inoue and Ms. Wang Xiaoqin, and four independent non-executive Directors, being Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping and Ms. Zhou Nan.