



Interim Report
2015/16



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

Stock code : 855

* For identification purposes only



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Ms. Ding Bin
Ms. Liu Yu Jie
Mr. Li Zhong (appointed on 4 June 2015)

Non-executive

Mr. Zhao Hai Hu
Mr. Zhou Wen Zhi
Mr. Makoto Inoue
Ms. Wang Xiaoqin (appointed on 9 June 2015)

Independent Non-executive

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

BDO Limited

PRINCIPAL BANKER

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

STOCK CODE

855

WEBSITE

www.chinawatergroup.com



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 2015, together with the comparative figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
	<i>Notes</i>		
Revenue	3	1,638,121	1,355,530
Cost of sales		(832,375)	(718,769)
Gross profit		805,746	636,761
Other income	4	122,560	106,345
Selling and distribution costs		(50,613)	(46,575)
Administrative expenses		(242,905)	(206,192)
Equity-settled share options expenses		(34,606)	–
Fair value gain on investment properties		62,299	143,497
Change in fair value of derivative financial instruments		(9,749)	(11,556)
(Loss)/Gain on repurchase/redemption of convertible bonds	13	(33)	116
Profit from operation	5	652,699	622,396
Finance costs	6	(92,515)	(39,735)
Share of results of associates		57,441	(22,607)
Profit before income tax		617,625	560,054
Income tax expense	7	(169,992)	(185,472)
Profit for the period		447,633	374,582



CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

Six months ended
30 September

	Notes	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Profit for the period attributable to:			
Owners of the Company		259,981	236,479
Non-controlling interests		187,652	138,103
		447,633	374,582
Earnings per share for profit attributable to owners of the Company during the period			
	8	HK cents	HK cents
Basic		17.36	16.88
Diluted		17.28	16.88



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Profit for the period	447,633	374,582
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
– Change in fair value of available-for-sale financial assets	4,090	1,211
– Currency translation	(82,024)	–
– Share of other comprehensive income of associates	–	391
– Reclassification adjustment - Disposal of a subsidiary	(127)	–
– Reclassification adjustment - Disposal of an associate	205	–
Other comprehensive income for the period, net of tax	(77,856)	1,602
Total comprehensive income for the period	369,777	376,184
Total comprehensive income attributable to:		
Owners of the Company	213,895	238,081
Non-controlling interests	155,882	138,103
	369,777	376,184



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
Notes			
ASSETS AND LIABILITIES			
Non-current assets			
		6,553,900	5,995,282
		554,034	466,873
		919,560	742,305
		1,449,809	1,363,334
	10(a)	262,011	163,875
		645,226	239,212
		168,948	175,729
		137,769	269,759
		10,691,257	9,416,369
Current assets			
		465,679	432,695
		242,302	242,945
		332,671	301,217
	11	871,113	655,776
		584,928	364,149
	10(b)	1,004	77,380
		356,767	541,602
		194,878	214,301
		1,146,189	925,290
	10(a)	90,203	99,952
		401,909	329,925
		2,604,875	1,500,748
		7,292,518	5,685,980



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
	Notes		
Current liabilities			
Trade and bills payables	12	569,084	486,361
Accrued liabilities, deposits received and other payables		1,959,976	1,648,225
Due to non-controlling equity holders of subsidiaries		190,906	211,562
Due to associates		95,395	95,158
Borrowings		2,924,288	2,347,068
Convertible bonds	13	-	28,969
Provision for tax		410,132	393,869
Derivative financial liabilities	13	-	2,987
		6,149,781	5,214,199
Net current assets		1,142,737	471,781
Total assets less current liabilities		11,833,994	9,888,150
Non-current liabilities			
Borrowings		4,121,750	3,024,468
Deposits received		116,711	107,451
Deferred government grants		88,252	78,701
Deferred tax liabilities		282,741	241,389
		4,609,454	3,452,009
Net assets		7,224,540	6,436,141
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	15,199	14,447
Proposed dividend		45,596	57,787
Reserves		4,378,981	3,851,192
		4,439,776	3,923,426
Non-controlling interests		2,784,764	2,512,715
Total equity		7,224,540	6,436,141



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended
30 September

	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Net cash inflow from operating activities	267,681	327,675
Net cash outflow from investing activities	(479,240)	(533,898)
Net cash inflow/(outflow) from financing activities	1,417,821	(127,356)
Increase/(Decrease) in cash and cash equivalents	1,206,262	(333,579)
Cash and cash equivalents at beginning of period	1,400,748	1,590,125
Effect of foreign exchange rates, net	(2,135)	–
Cash and cash equivalents at end of period	2,604,875	1,256,546
Analysis of balances of cash and cash equivalents		
Bank and cash balances	2,604,875	1,256,546



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital (unaudited) HK\$'000	Proposed dividend (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share options reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available-for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000	Non-controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
Balance at 1 April 2015	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
Share issued in respect of conversion of convertible bonds (note 14)	91	-	30,511	-	-	-	-	-	-	-	-	30,602	-	30,602
Share issued in respect of acquisition of subsidiaries (note 14)	292	-	123,840	-	-	-	-	-	-	-	-	124,132	-	124,132
Subscription of new shares (note 14)	369	-	154,641	-	-	-	-	-	-	-	-	155,010	-	155,010
Share issuance expenses	-	-	(5,527)	-	-	-	-	-	-	-	-	(5,527)	-	(5,527)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	73,211	73,211
Arising from disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(4,918)	(4,918)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	76,260	76,260
Recognition of equity settled share-based compensation	-	-	-	-	-	-	34,606	-	-	-	-	34,606	-	34,606
Final dividend approved	-	(57,787)	-	-	(3,007)	-	-	-	-	-	-	(60,794)	-	(60,794)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(28,386)	(28,386)
Transactions with owners	752	(57,787)	303,465	-	(3,007)	-	34,606	-	-	-	-	278,029	116,167	394,196
Proposed interim dividend	-	45,596	-	-	(45,596)	-	-	-	-	-	-	-	-	-
Share of associate' reserves	-	-	-	-	-	-	24,426	-	-	-	-	24,426	-	24,426
Profit for the period	-	-	-	-	-	-	-	-	-	-	259,981	259,981	187,652	447,633
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	4,090	-	-	4,090	-	4,090
- Currency translation	-	-	-	-	-	(50,254)	-	-	-	-	-	(50,254)	(31,770)	(82,024)
- Reclassification adjustment	-	-	-	-	-	(127)	-	-	-	-	-	(127)	-	(127)
- Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Disposal of an associate	-	-	-	-	-	205	-	-	-	-	-	205	-	205
Total comprehensive income for the period	-	-	-	-	-	(50,176)	-	-	4,090	-	259,981	213,895	155,882	369,777
Balance at 30 September 2015	15,199	45,596	735,255	2,559	876,385	293,614	107,699	(385,954)	15,155	220,908	2,515,360	4,439,776	2,784,764	7,224,540



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Equity attributable to owners of the Company

	Share capital (unaudited) HK\$'000	Proposed dividend (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share options reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available-for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Non-controlling interests		Total equity (unaudited) HK\$'000
												Total (unaudited) HK\$'000	(unaudited) HK\$'000	
Balance at 1 April 2014	14,049	42,147	306,427	2,507	1,025,836	388,349	14,416	(379,081)	10,300	195,137	1,910,344	3,530,431	2,165,697	5,696,128
Share repurchase (note 14)	(52)	-	(12,999)	-	-	-	-	-	-	-	-	(13,051)	-	(13,051)
Share repurchase expenses	-	-	(55)	-	-	-	-	-	-	-	-	(55)	-	(55)
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	-	-	-	-	(2,919)	(2,919)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	25,104	25,104
Final dividend approved	-	(42,147)	-	-	155	-	-	-	-	-	-	(41,992)	-	(41,992)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(41,138)	(41,138)
Transactions with owners	(52)	(42,147)	(13,054)	-	155	-	-	-	-	-	-	(55,098)	(18,953)	(74,051)
Proposed interim dividend	-	41,992	-	-	(41,992)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	52	-	-	-	-	-	-	(52)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	236,479	236,479	138,103	374,582
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	1,211	-	-	1,211	-	1,211
- Share of other comprehensive income of associates	-	-	-	-	-	391	-	-	-	-	-	391	-	391
Total comprehensive income for the period	-	-	-	-	-	391	-	-	1,211	-	236,479	238,081	138,103	376,184
Balance at 30 September 2014	13,997	41,992	293,373	2,559	983,999	388,740	14,416	(379,081)	11,511	195,137	2,146,771	3,715,414	2,284,847	5,998,261



Notes:

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The basis of preparation and 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 2015 except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that have become effective for accounting period beginning on 1 April 2015.

In the current interim period, the Group has applied for the first time the following new standards, amendments and interpretations ("New and Revised HKFRSs") issued by HKICPA:

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

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. Revenue and segment information

The Group has identified the following reportable segments:

- (i) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment operation and construction" segments, involves the provision of water supply and sewage treatment operation and construction services respectively (including the transfer-operate-transfer and build-operate-transfer arrangements);
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation; and
- (iii) "Concrete related products and services" segment involves production and sales of ready-mixed concrete and related services.

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

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

Segment assets exclude corporate assets, available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial assets and interests in associates.





For the financial period ended 30 September 2015

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	Concrete related products and services (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
From external customers	1,295,199	162,405	15,178	123,943	41,396	1,638,121
From inter-segment	-	-	-	-	-	-
Segment revenue	1,295,199	162,405	15,178	123,943	41,396	1,638,121
Segment profit	536,085	77,749	61,534	20,815	14,456	710,639
Unallocated corporate income						70,260
Unallocated corporate expense						(83,812)
Equity-settled share options expenses						(34,606)
Change in fair value of derivative financial instruments						(9,749)
Loss on redemption of convertible bonds						(33)
Finance costs						(92,515)
Share of results of associates	10,857	91	(38,845)	-	85,338	57,441
Profit before income tax						617,625
Income tax expense						(169,992)
Profit for the period						447,633
Total segment assets	8,887,888	1,027,961	1,693,308	383,852	928,516	12,921,525



For the financial period ended 30 September 2014

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	Concrete related products and services (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
From external customers	997,566	81,651	71,013	172,189	33,111	1,355,530
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>997,566</u>	<u>81,651</u>	<u>71,013</u>	<u>172,189</u>	<u>33,111</u>	<u>1,355,530</u>
Segment profit	<u>402,994</u>	<u>27,892</u>	<u>162,269</u>	<u>34,779</u>	<u>12,533</u>	640,467
Unallocated corporate income						51,347
Unallocated corporate expense						(57,978)
Change in fair value of derivative financial instruments						(11,556)
Gain on repurchase of convertible bonds						116
Finance costs						(39,735)
Share of results of associates	7,948	-	(29,108)	-	(1,447)	(22,607)
Profit before income tax						560,054
Income tax expense						(185,472)
Profit for the period						<u>374,582</u>
Total segment assets	<u>7,175,172</u>	<u>514,643</u>	<u>1,772,437</u>	<u>387,792</u>	<u>772,918</u>	<u>10,622,962</u>

The Group's revenues from external customers by geographical areas are not presented as the geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.



4. Other income

	Consolidated Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Interest income	59,849	48,732
Dividend income from financial assets	8,912	2,609
Government grants and subsidies	15,211	40,142
Gain on disposal of prepaid land lease payments	28,129	–
Miscellaneous income	10,459	14,862
Total	122,560	106,345

5. Profit from operation

Profit from operation is arrived at after charging:

	Consolidated Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Depreciation	153,719	131,533
Amortisation of prepaid land lease payments	8,391	7,985
Amortisation of other intangible assets	4,458	4,641

6. Finance costs

	Consolidated Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Interest on bank loans	105,874	97,645
Interest on other borrowings	41,844	9,951
Interest on convertible bonds	69	6,155
Total borrowing costs	147,787	113,751
Less: interest capitalised included in property, plant and equipment and properties under development	(55,272)	(74,016)
	92,515	39,735



7. 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 (2014: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Consolidated Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Current		
– PRC	152,191	133,652
Deferred		
– tax charge for the period	17,801	51,820
Total tax charge for the period	169,992	185,472

8. 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\$259,981,000 (2014: HK\$236,479,000) and the weighted average of 1,497,180,266 (2014: 1,401,073,393) ordinary shares in issue during the period.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the financial period ended 30 September 2015, 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 period attributable to owners of the Company of HK\$259,981,000 and on the weighted average of 1,504,193,677 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,497,180,266 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 7,013,411.

Diluted earnings per share for the financial period ended 30 September 2014 is the same as the basic earnings per share because the impact of the potential dilutive ordinary shares outstanding is anti-dilutive.

9. Dividends

Dividends attributable to the interim period

	Consolidated Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Interim dividend		
– HK\$0.03 (2014: HK\$0.03) per ordinary share	45,596	41,992



The interim dividend proposed after the reporting date for the financial period ended 30 September 2015 and 2014 have not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the financial period ended 30 September 2015 and 2014 respectively.

10. Other financial assets

(a) Available-for-sale financial assets

	As at	
	30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (i))	72,118	68,028
Unlisted equity securities outside Hong Kong, at cost (note (ii))	189,893	95,847
	262,011	163,875

Notes:

- (i) The Group held certain convertible bonds issued by China City Infrastructure Group Limited (“China City Infrastructure”) (the “China City Infrastructure Convertible Bonds”), a company listed on the Stock Exchange (stock code: 2349) 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 (the “China City Infrastructure Shares”) at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. On 27 October 2009 and 24 October 2011, the conversion price was adjusted to HK\$0.045 and HK\$0.3781 (after share consolidation) respectively. The Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the 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 2014. During the six months ended 30 September 2015 and the year ended 31 March 2015, 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 instruments included in derivative financial assets.



The fair value of the debt element was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to instruments of similar terms. The effective interest rate of the debt element at 30 September 2015 is 10.00%. The fair value of the debt element has been determined by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers.

The fair value of the conversion options element is determined by the directors of the Company with reference to the valuation performed by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers on Binomial model basis.

The major inputs used in the model are as follows:

	As at	
	30 September 2015	31 March 2015
Stock price	HK\$0.70	HK\$0.75
Expected volatility	65.000%	50.995%
Risk free rate	0.34%	0.70%
Expected dividend yield	Nil	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	Conversion options element – Conversion options embedded in convertible bonds
	HK\$'000	HK\$'000
Net carrying amount at 1 April 2014	67,263	77,056
Change in fair value		
– credited to profit or loss	–	22,896
– credited to equity	765	–
Net carrying amount at 31 March 2015 and at 1 April 2015	68,028	99,952
Change in fair value		
– charged to profit or loss	–	(9,749)
– credited to equity	4,090	–
Net carrying amount at 30 September 2015	72,118	90,203



- (ii) 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.

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

	As at	
	30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
Listed equity securities, at market value: <i>(Note (i))</i> – PRC	1,004	956
Financial assets under assets securitisation scheme <i>(Note (ii))</i>	–	76,424
	1,004	77,380

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 under assets securitisation scheme were pledged as security for other borrowing facilities granted to the Group.



11. Trade and bills receivables

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

	As at	
	30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
0 to 90 days	416,885	258,724
91 to 180 days	137,696	145,072
Over 180 days	316,532	251,980
	871,113	655,776

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

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

12. Trade and bills payables

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

	As at	
	30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
0 to 90 days	293,948	273,954
91 to 180 days	85,198	61,133
Over 180 days	189,938	151,274
	569,084	486,361

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

As at 30 September 2015, the bills payables of HK\$88,774,000 (31 March 2015: HK\$69,083,000) were secured by the pledged bank deposits of HK\$49,667,000 (31 March 2015: HK\$37,670,000).

**13. Convertible bonds and derivative financial liabilities**

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

Liability component – classified as current liabilities

	HK\$'000
Net carrying amount at 1 April 2014	163,461
Arising from repurchases and redemption	(138,456)
Interest expenses	8,004
Interest on convertible bonds paid	(4,040)
Net carrying amount at 31 March 2015 and at 1 April 2015	28,969
Arising from repurchases and redemption	(29,023)
Interest expenses	69
Interest on convertible bonds paid	(15)
Net carrying amount at 30 September 2015	-

Derivative component – classified as current liabilities

	HK\$'000
Net carrying amount at 1 April 2014	4,976
Arising from repurchases and redemption	(4,517)
Change in fair value of derivative financial instruments	2,528
Net carrying amount at 31 March 2015 and at 1 April 2015	2,987
Arising from repurchases and redemption	(2,987)
Net carrying amount at 30 September 2015	-



Note:

On 10 March 2010, the Company entered into a subscription agreement with DBS Bank Limited ("DBS") pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK\$600 million (the "Convertible Bonds") at 2.5% coupon rate per annum with maturity on 15 April 2015. The Convertible Bonds are convertible at any time on or after 26 May 2010 and up to the close of business on 5 April 2015 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholders, at an initial conversion price of HK\$4 per share (the "Conversion Price"). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 15 April 2011, the average of the volume weighted average price (the "Average Market Price") of the shares of the Company on each trading day in the period of 20 consecutive trading days before the day immediately prior to 15 April 2011 is less than the Conversion Price on the 15 April 2011, the Conversion Price shall be reset to the Average Market Price (the "Conversion Price Reset") provided that the Conversion Price shall not be reduced on 15 April 2011 to below HK\$3.15 (before adjustment). On 17 September 2010, 16 December 2010, 15 April 2011, 6 September 2011, 12 September 2012, 17 September 2013 and 17 September 2014, the Convertible Price was reset to HK\$3.96, HK\$3.93, HK\$3.10, HK\$3.07, HK\$2.99, HK\$2.93 and HK\$2.88 respectively. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at 120.06 per cent of its principal amount on 15 April 2015.

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

On or after 15 April 2013, the Company may redeem all or some of the Convertible Bonds at their accreted principal amount, in whole but not in part if the closing price of the shares of the Company for each of the 20 consecutive trading days ending not more than 20 days prior to the date upon which notice of such redemption is given, is at least 135 per cent of the Conversion Price on such trading day.

On 15 April 2013, the bondholders of the Convertible Bonds will have the right at such holders' option, to require the Company to redeem all or some of the Convertible Bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013. To exercise such right, the holder of the Convertible Bonds must provide to the Company a redemption notice ("Redemption Notice") not less than 15 days nor more than 60 days before 15 April 2013. In pursuant to the Redemption Notice was received, the Company redeemed Convertible Bonds in principal amount of HK\$286,700,000 on 15 April 2013.

During the six months ended 30 September 2015, the Company converted, at the request of bondholders, Convertible Bonds in principal amount of HK\$26,100,000 into ordinary shares at conversion price of HK\$2.88. After the completion of redemption, the outstanding principal amount of the Convertible Bonds of HK\$1,200,000 was fully repaid during the six months ended 30 September 2015. The Group recognised a loss on redemption of the Convertible Bonds of HK\$33,000.





During the six months ended 30 September 2014, the Company repurchased the Convertible Bonds with an aggregate principal amount of HK\$5,000,000 at the total consideration of HK\$5,960,000. After completion of the above repurchase, the outstanding principal amount of the Convertible Bonds is HK\$156,800,000. The Group recognised a gain on repurchase/redemption of the Convertible Bonds of HK\$116,000 during the six months ended 30 September 2014.

The Group determined that the above Conversion Price Reset will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company's shares. In accordance with requirement of HKAS 32, the bond contracts are separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element.

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

	As at	
	30 September 2015	31 March 2015
Stock price	N/A	HK\$3.70
Expected volatility	N/A	19.40%
Risk free rate	N/A	0.068%

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the derivative component during the period ended 30 September 2014 results in a fair value loss of HK\$3,425,000, which has been included in the "Change in fair value of derivative financial instruments" in the consolidated income statement for the six months ended 30 September 2014.

Interest expenses are calculated using the effective interest method by applying the effective interest rate of 7.51% to the adjusted liability component.



14. Share capital

	Notes	Number of shares '000	Par value HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each at 30 September 2015 and 31 March 2015		20,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK\$0.01 each at 1 April 2014		1,404,910	14,049
Repurchased and cancelled	(i)	(5,192)	(52)
Shares issued in respect of conversion of convertibles bonds	(ii)	44,965	450
Ordinary shares of HK\$0.01 each at 31 March 2015 and 1 April 2015		1,444,683	14,447
Share issued in respect of conversion of convertible bonds	(ii)	9,063	91
Share issued in respect of acquisition of subsidiaries	(iii)	29,208	292
Subscription of new shares	(iv)	36,907	369
At 30 September 2015		1,519,861	15,199

Notes:

- (i) During the six months ended 30 September 2014, the Company repurchased a total of 5,192,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$13,051,000. The highest price paid and the lowest price paid was HK\$2.67 and HK\$2.37 respectively. 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.
- (ii) During the six months ended 30 September 2015, approximately 9,063,000 (during the year ended 31 March 2015: approximately 44,965,000 shares) shares were issued in respect of conversion of the Convertible Bonds at HK\$2.88 per ordinary share of the Company.

- (iii) 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. ("Shenzhen Bus Group") at the total cash consideration of US\$109,712,736. Goldtrust Water Group is principally engaged in water supply, sewage treatment and other water related businesses in the PRC and it holds 9.7% equity interest in Shenzhen Bus Group which is principally engaged in providing public bus transportation services in Shenzhen.

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 in the Company at HK\$4.458 per share as consideration shares 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 consideration shares were issued on 3 June 2015. The premium received was credited to the share premium account.

- (iv) 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) which will be used for general working capital and business development of the Group. All the relevant proceeds have been used for the Group's acquisition of Goldtrust Water Group. The premium received was credited to the share premium account.



15. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2015 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over property, plant and equipment in which their aggregate carrying amounts as at 30 September 2015 was HK\$14,766,000 (31 March 2015: HK\$236,107,000);
- (c) charges over interests in land use rights in which their aggregate carrying amounts as at 30 September 2015 was HK\$140,397,000 (31 March 2015: HK\$111,848,000);
- (d) charges over investment properties in which their aggregate carrying amounts as at 30 September 2015 was HK\$250,707,000 (31 March 2015: HK\$420,091,000);
- (e) charges over other intangible assets in which their aggregate carrying amounts as at 30 September 2015 was HK\$63,022,000 (31 March 2015: HK\$65,229,000);
- (f) charges over the properties under development in which their aggregate carrying amounts as at 30 September 2015 was HK\$57,733,000 (31 March 2015: HK\$58,454,000);
- (g) charges over the available-for-sale financial assets in which their aggregate carrying amounts as at 30 September 2015 was HK\$132,932,000 (31 March 2015: HK\$Nil);
- (h) charges over the financial assets at fair value through profit or loss in which their aggregate carrying amounts as at 31 March 2015 was HK\$76,424,000;
- (i) charges over the Group's bank deposits in amount of HK\$401,909,000 as at 30 September 2015 (31 March 2015: HK\$329,925,000); and
- (j) charges over (1) shares of certain subsidiaries of the Group; (2) the Group's equity interests in China City Infrastructure; and (3) the China City Infrastructure Convertible Bonds as at 30 September 2015.



16. 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:

	Consolidated Six months ended 30 September	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	23,521	27,054
– Retirement scheme contribution	151	126
– Equity-settled share options expenses	25,249	–
	48,921	27,180

17. Commitments and guarantee

(i) Capital commitments

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

	As at	
	30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
Contracted, but not provided for		
– Construction in progress	12,958	15,695
– Plant and machinery	42,298	53,258
– Water pipelines	9,491	14,844
	64,747	83,797

(ii) Operating lease arrangement

As lessee

The Group leases certain of its leasehold land, office premises, properties, water pipelines, plant and machinery under operating lease arrangements for initial period ranging from one to twenty 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 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:

	As at	
	30 September 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
Within one year	27,718	26,725
In the second to fifth years, inclusive	104,031	107,678
After five years	202,217	211,815
	333,966	346,218

As lessor

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 2015 (unaudited) HK\$'000	31 March 2015 (audited) HK\$'000
Within one year	18,404	18,198
In the second to fifth years, inclusive	33,522	35,179
After five years	–	7,407
	51,926	60,784

- (iii) As at 30 September 2015, the Group had given the following guarantee: (a) to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$6,420,000 (31 March 2015: HK\$10,971,000); and (b) a subsidiary of the Group, 長沙市農業投資擔保有限公司, which is engaged in guarantee business, has provided financial guarantees to the customers of approximately HK\$541,700,000 (31 March 2015: approximately HK\$709,250,000) in the ordinary course of business.

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

**18. Contingent liabilities**

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

19. Post reporting date events

The Group had the following material event after 30 September 2015:

On 8 July 2011, the Company and its subsidiary, 上海銀龍股權投資有限公司, entered into a term facility agreement (“ADB Loan Agreement”) with Asian Development Bank (“ADB”) for a loan facility (the “ADB Loan”) of up to US\$100 million. ADB Loan Agreement was further amended and restated on 1 February 2013 for another US\$100 million (the “Amended ADB Loan Agreement”). The ADB Loan Agreement was further amended on 6 March 2014. Pursuant to the Amended ADB Loan Agreement, at any time prior to the third anniversary to the Amended ADB Loan Agreement, ADB may, upon giving ninety days’ prior written notice to the Company (“Prepayment Notice”), demand and the Company shall repay on the third anniversary of the Amended ADB Loan Agreement the portion of the ADB Loan notified to it by ADB. The facility of US\$100 million under the ADB Loan and US\$100 million under the Amended ADB Loan Agreement were fully utilised. Pursuant to the Prepayment Notice received on 29 October 2015, the Company shall prepay a portion of the ADB Loan in the outstanding principal amount of US\$22,050,000 on 1 February 2016.





INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.03 per ordinary share for the six months ended 30 September 2015 (2014: HK\$0.03 per ordinary share). The interim dividend is expected to be paid on or about Friday, 29 January 2016 to the shareholders whose names appear on the register of members on Friday, 18 December 2015.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$1,355.5 million for the six months ended 30 September 2014 to HK\$1,638.1 million for the six months ended 30 September 2015, representing an increase of 20.8%. The Group recorded a robust growth in its "Water" segment. For the period under review, the total revenue attributable to the "Water" segment amounted to HK\$1,457.6 million, which represented approximately 89.0% of the total revenue. For the corresponding period under review, the total revenue attributable to the "Water" segment amounted to HK\$1,079.2 million, which represented approximately 79.6% of the total revenue only. This represented an organic growth of "Water" segment revenue of 35.1%, which was mainly attributable to the successful growth of the Group through various mergers and acquisition, increase in operating efficiency and tariff of the water supply and sewage treatment plants.

(i) *Water Supply Business Analysis*

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

For the period under review, the revenue from city water supply operation and construction amounted to HK\$1,295.2 million (2014: HK\$997.6 million), representing a significant increase of 29.8% as compared with the last corresponding period. The total water segment profit (including city water supply, water related installation works and meter installation) amounted to HK\$536.1 million (2014: HK\$403.0 million), representing a significant increase of 33.0% as compared with the last corresponding period, which was mainly attributable to the contribution from the acquisition of Goldtrust Water Holdings Limited and its subsidiaries ("Goldtrust Water Group") and other new water projects during the period.



(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 period under review, the revenue from sewage treatment operation and construction business amounted to HK\$162.4 million (2014: HK\$81.7 million), representing a significant increase of 98.8% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$77.7 million (2014: HK\$27.9 million), representing a significant increase of 178.5% as compared with the last corresponding period, which was mainly attributable to the contribution from the acquisition of Goldtrust Water Group and 惠州市銀龍實業有限公司 and its subsidiary during the period.

(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 period under review, the revenue from the property business segment amounted to HK\$15.2 million (2014: HK\$71.0 million). The total property business segment profit amounted to HK\$61.5 million (2014: HK\$162.3 million), representing a decrease of 62.1% as compared with the last corresponding period, which was mainly because no sales of property projects were recorded and the fair value gain on investment properties decreased by HK\$81.2 million (2014: fair value gain of HK\$143.5 million) in current period.

(iv) Concrete Business Analysis

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

For the period under review, the revenue from concrete business segment amounted to HK\$123.9 million (2014: HK\$172.2 million). The total concrete business segment profit amounted to HK\$20.8 million (2014: HK\$34.8 million), representing a decrease of 40.2% as compared with the last corresponding period.

For the period under review, the increase in the Group's share of results of associates was mainly attributable to the disposal of entire interest of Jiu Rong Holdings Limited, whose ordinary shares are listed on the mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2358), resulting in a gain of HK\$86.7 million. For the period under review, the Group also recorded a loss on share of results of China City Infrastructure Group Limited, whose ordinary shares are listed on the Stock Exchange (stock code: 2349), in an amount of HK\$37.6 million (2014: 15.7 million).





PROSPECTS

Premier Li Keqiang stressed at the World Economic Forum (WEF) Annual Meeting 2015 in Davos, Switzerland that China will maintain medium-to-high speed of growth, keep a proper balance between steady growth and structural adjustment, and push forward reforms. To achieve the medium-to-high level of development, it has to rely on both the traditional and new engines of growth. To transform the traditional engine of growth, the government is encouraging the non-governmental participation to improve the efficiency of supply of public goods and services, putting a more important role for the private and social funds to play in the public service sector. Central Government has since issued a series of policies and guidelines, for further deepening the reform in the utility sectors:

The State Council's policy of 'Water Ten Plan' has rolled out the road map of water tariff reform to start the progressive water tariff system across the county by the end of 2015.

On 12 October 2015, the State Council issued a further document on tariff reform "Several Opinions of the CPC Central Committee and the State Council on Advancing the Pricing Mechanism Reform", stressing the importance of the market mechanism and its role in the tariff reform.

On 16 October, the State Council issued "Guideline to Promote Building Sponge Cities", which opens a grand water business market to the operators with experience of managing underground pipeline networks.

With the favorable government's macro policies, the Company has set up a business development strategy to divest and monetize the non-core assets and scale up the merger and acquisition of water assets. This will create synergies with our existing water businesses and improve the operational efficiency as a whole to bring larger returns to our shareholders.

CAPITAL RAISING

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 Group and 9.7% of equity interest in Shenzhen Bus Group Co., Ltd. ("Shenzhen Bus Group") at the total cash consideration of US\$109,712,736. Goldtrust Water Group is principally engaged in water supply, sewage treatment and other water related businesses in the PRC and it holds 9.7% equity interest in Shenzhen Bus Group which is principally engaged in providing public bus transportation services in Shenzhen.



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 in the Company at HK\$4.458 per share as consideration shares for the settlement of cash consideration payable to Ms. Lu Hai in relation to her shareholding interests in Goldtrust Water Group. The consideration shares were issued on 3 June 2015.

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) which will be used for general working capital and business development of the Group. All the relevant proceeds have been used for the Group’s acquisition of Goldtrust Water Group.

CONVERTIBLE BONDS

During the six months ended 30 September 2015, the Company converted, at the request of bondholders, convertible bonds in principal amount of HK\$26,100,000 into ordinary shares at conversion price of HK\$2.88. After the completion of redemption, the outstanding principal amount of the convertible bonds of HK\$1,200,000 was fully repaid during the six months ended 30 September 2015. The Group recognised a loss on redemption of the convertible bonds of HK\$33,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2015, the Group has total cash and deposits balances of approximately HK\$3,006.8 million (31 March 2015: HK\$1,830.7 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 59.8% (31 March 2015: 57.4%) as at 30 September 2015. The current ratio is 1.19 times (31 March 2015: 1.09 times) as at 30 September 2015. 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 2015, the Group has employed approximately 7,000 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 2015, 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:

(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	387,896,301	–	25.52%
Ms. Ding Bin	Personal	500,000	–	0.03%
Ms. Liu Yu Jie	Personal	3,354,000	–	0.22%
Mr. Li Zhong (Note (ii))	Personal	29,527,457	–	1.94%
Mr. Zhao Hai Hu	Personal	1,306,000	–	0.09%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%
Ms. Wang Xiaoqin	Personal	6,660,000	–	0.44%

Notes:

- (i) These 387,896,301 shares consist of 206,820,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 181,076,000 shares held by Mr. Duan 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	70,000,000	–	4.61%
Ms. Ding Bin	Personal	5,000,000	–	0.33%
Ms. Liu Yu Jie	Personal	8,000,000	–	0.53%
Mr. Li Zhong	Personal	8,000,000	–	0.53%
Mr. Zhao Hai Hu	Personal	3,000,000	–	0.20%
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

The Company adopted the share option scheme on 7 September 2012. The movements in the Company's share options during the period is set out below:

	Share option type	Number of share options				At 30 September 2015
		At 1 April 2015	Granted during the period	Exercised during the period	Transfer from/(to) other category during the period	
Directors						
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
Ms. Wang Xiaoqin	2015 (c)	-	-	-	1,000,000	1,000,000
	2015 (d)	-	-	-	1,000,000	1,000,000
Mr. Chen Guo Ru	2015 (c)	250,000	-	-	(250,000)	-
	2015 (d)	250,000	-	-	(250,000)	-
		<u>87,500,000</u>	<u>8,000,000</u>	<u>-</u>	<u>1,500,000</u>	<u>97,000,000</u>
Employees/Consultants						
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>



Details of the share 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 2016 to 9 September 2018		HK\$3.5
2016 (b)	9 September 2015	9 September 2017 to 9 September 2018		HK\$3.5

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 2015, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) 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	387,896,301	-	-	25.52%	-	-
Asset Full Resources Limited (Note)	Beneficial	206,820,301	-	-	13.61%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	19.16%	-	-

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



Save as disclosed above, as at 30 September 2015, 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 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 2015, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.2.7, A.4.2 and A.6.7.

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

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



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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 2 September 2015 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 2015 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 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 December 2015 to Friday, 18 December 2015 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 2015, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 15 December 2015.



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 accounts for the six months ended 30 September 2015 with the directors.

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

Hong Kong, 26 November 2015

As at the date of this report, the Board comprises four executive Directors, being Mr. Duan Chuan Liang, Ms. Ding Bin, Ms. Liu Yu Jie and Mr. Li Zhong, 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 Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung.