



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

Interim Report 2017/18



* 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

Non-executive

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

Independent Non-executive

Mr. Chau Kam Wing
Mr. Ong King Keung
Mr. Siu Chi Ming
Ms. Ho Ping

AUDIT COMMITTEE

Mr. Chau Kam Wing
(*Chairman of committee*)
Mr. Ong King Keung
Mr. Siu Chi Ming
Ms. Ho Ping

REMUNERATION COMMITTEE

Mr. Chau Kam Wing
(*Chairman of committee*)
Mr. Ong King Keung
Mr. Siu Chi Ming
Ms. Ho Ping

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

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

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

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

- City water supply operation and construction
 - Connected users of approximately 3 million
 - Serving more than 10 million people
 - Water pipelines approximately 131,000 km
- Sewage treatment operation and construction
- ▲ Drainage operation



FINANCIAL HIGHLIGHTS

	Six months ended 30 September		Change
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	
RESULTS HIGHLIGHTS			
Revenue	3,513,685	3,020,044	16.3%
Gross profit	1,535,888	1,246,490	23.2%
Profit for the period	857,603	671,982	27.6%
Profit for the period attributable to owners of the Company	537,015	429,052	25.2%
Basic earnings per share (HK cents)	34.93	28.43	22.9%
Diluted earnings per share (HK cents)	34.46	28.19	22.2%
Interim dividend (HK cents)	8	4	

	As at		Change
	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000	
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	26,929,885	25,631,709	5.1%
Total liabilities	17,003,236	16,668,776	2.0%
Net assets	9,926,649	8,962,933	10.8%
Net assets per share ¹	3.94	3.70	6.5%
Current ratio	1.04	1.34	
Gearing ratio ²	63.1%	65.0%	

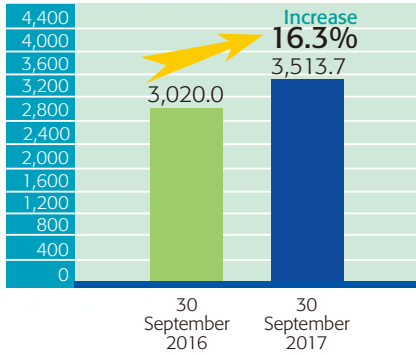
$$^1 \quad \text{Net assets per share} = \frac{\text{Equity attributable to owners of the Company}}{\text{Ordinary shares in issue at period/year end}}$$

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

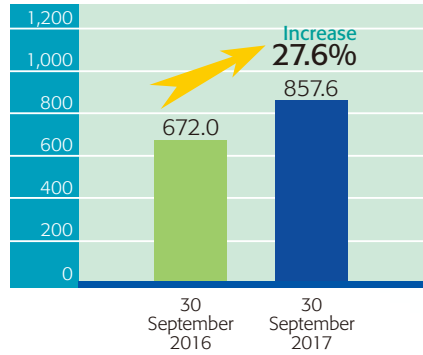
FINANCIAL HIGHLIGHTS

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

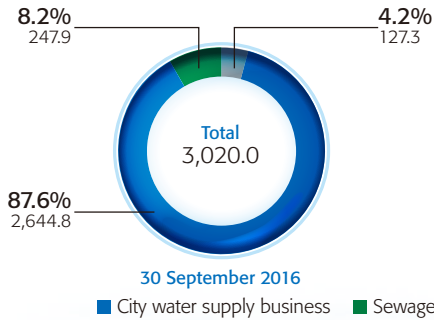
Total revenue (HK\$ million)



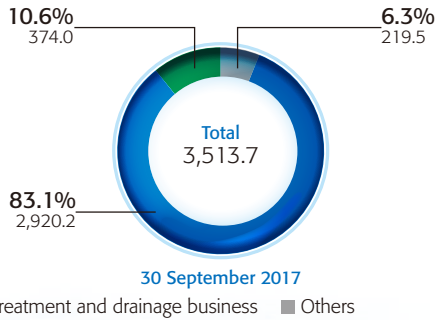
Total profit (HK\$ million)



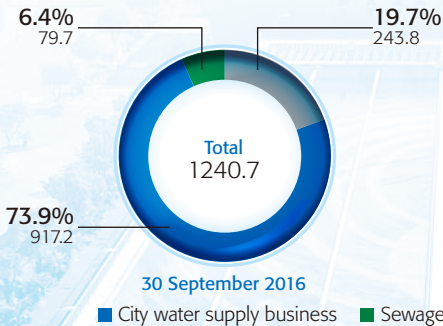
Total segment revenue (HK\$ million)



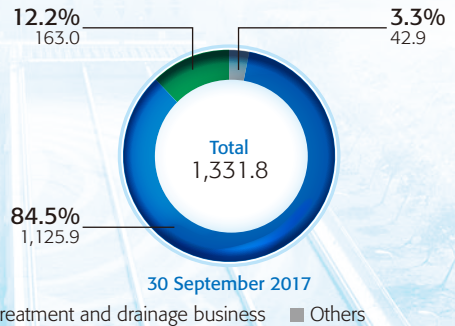
Total segment revenue (HK\$ million)



Total segment profit (HK\$ million)

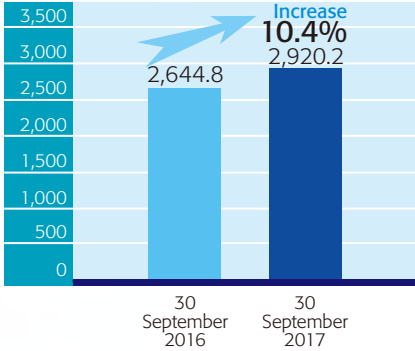


Total segment profit (HK\$ million)

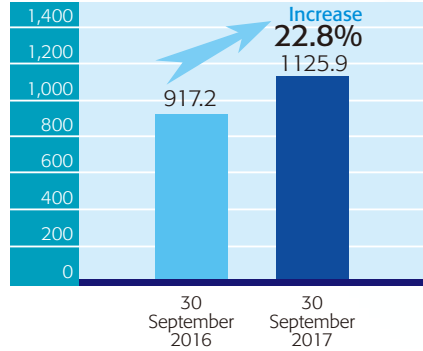


1. Water Supply Business Analysis

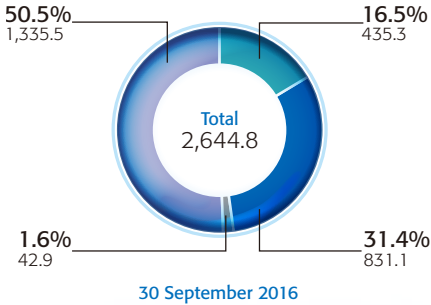
Revenue (HK\$ million)



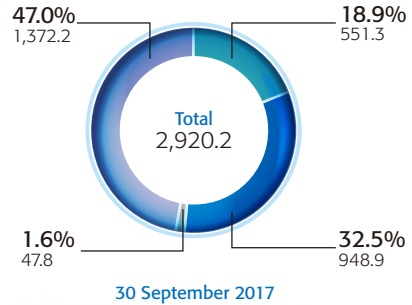
Profit (HK\$ million)



Revenue by nature (HK\$ million)



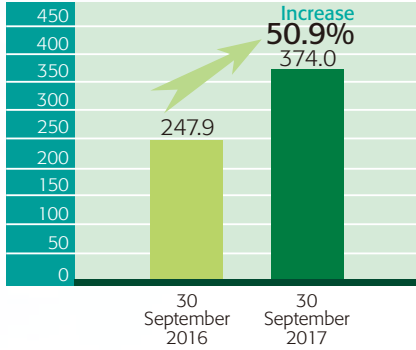
Revenue by nature (HK\$ million)



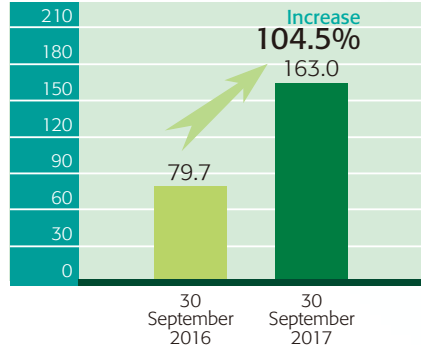
■ Water supply operation services ■ Water supply connection income ■ Water supply construction services ■ Others

2. Sewage Treatment and Drainage Business Analysis

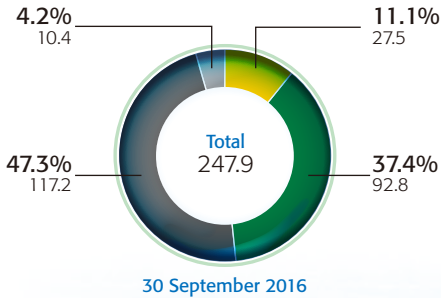
Revenue (HK\$ million)



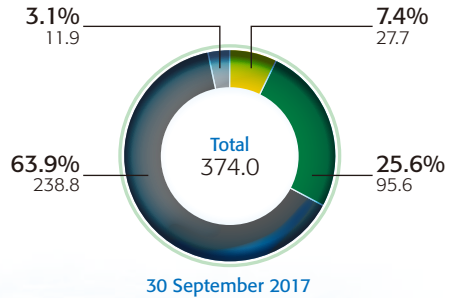
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



■ Sewage treatment operation services
 ■ Drainage operation services
 ■ Sewage treatment 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 2017, together with the comparative figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
	<i>Notes</i>	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Revenue	5	3,513,685	3,020,044
Cost of sales		(1,977,797)	(1,773,554)
Gross profit		1,535,888	1,246,490
Other income	5	157,888	102,413
Selling and distribution costs		(86,005)	(74,965)
Administrative expenses		(286,703)	(305,701)
Equity-settled share options expenses		(592)	(13,273)
Fair value gain on investment properties		–	247,619
Change in fair value of derivative financial assets		(26,283)	(19,533)
Gain on disposal of a subsidiary		23,020	–
Operation profit	7	1,317,213	1,183,050
Finance costs	8	(158,717)	(135,568)
Share of results of associates		29,073	(82,395)
Profit before income tax		1,187,569	965,087
Income tax expense	9	(329,966)	(293,105)
Profit for the period		857,603	671,982

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

		Six months ended 30 September	
	<i>Notes</i>	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Profit for the period attributable to:			
Owners of the Company		537,015	429,052
Non-controlling interests		320,588	242,930
		<u>857,603</u>	<u>671,982</u>
Earnings per share for profit attributable to owners of the Company during the period			
	10	HK cents	HK cents
Basic		<u>34.93</u>	<u>28.43</u>
Diluted		<u>34.46</u>	<u>28.19</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Profit for the period	857,603	671,982
Other comprehensive income		
Items that have been or may be reclassified subsequently to profit or loss:		
– Change in fair value of available-for-sale financial assets	(13,749)	2,176
– Currency translation	241,489	(259,556)
– Share of other comprehensive income of associates	–	(5,910)
– Recycling of currency translation differences upon disposal of subsidiaries	5,056	9,516
– Recycling of reserves upon disposal of available-for-sale financial assets	(9,787)	–
Other comprehensive income/(loss) for the period, net of tax	223,009	(253,774)
Total comprehensive income for the period	1,080,612	418,208
Total comprehensive income attributable to:		
Owners of the Company	676,021	292,403
Non-controlling interests	404,591	125,805
	1,080,612	418,208

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at		
		30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000	
Notes				
ASSETS AND LIABILITIES				
Non-current assets				
	Property, plant and equipment	12	1,562,382	1,126,821
	Prepaid land lease payments	12	796,398	733,783
	Investment properties		1,321,529	1,172,637
	Interests in associates		592,991	635,473
	Available-for-sale financial assets	13(a)	291,836	339,894
	Goodwill		742,242	686,427
	Other intangible assets	12	11,115,547	9,629,813
	Prepayments, deposits and other receivables	15	684,778	624,302
	Receivables under service concession arrangements		915,235	740,199
			18,022,938	15,689,349
Current assets				
	Properties under development		535,784	690,083
	Properties held for sale		548,847	288,694
	Inventories		346,175	284,853
	Trade and bills receivables	14	957,050	871,891
	Receivables under service concession arrangements		37,198	36,783
	Financial assets at fair value through profit or loss	13(b)	351,372	224,738
	Due from non-controlling equity holders of subsidiaries		236,923	250,582
	Due from associates		519,359	409,091
	Prepayments, deposits and other receivables	15	2,183,113	1,743,357
	Derivative financial assets	13(a)	19,015	45,298
	Pledged deposits		602,940	783,013
	Cash and cash equivalents		2,569,171	4,313,977
			8,906,947	9,942,360

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
	Notes	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Current liabilities			
Trade and bills payables	16	1,471,041	1,097,051
Accrued liabilities, deposits received and other payables	17	2,313,525	2,101,605
Due to associates		15,530	34,289
Borrowings	18	3,678,229	3,205,875
Due to non-controlling equity holders of subsidiaries		289,821	290,634
Provision for tax		774,770	662,899
		8,542,916	7,392,353
Net current assets			
		364,031	2,550,007
Total assets less current liabilities			
		18,386,969	18,239,356
Non-current liabilities			
Borrowings	18	7,233,438	8,123,092
Deposits received	17	243,483	231,844
Due to associates		4,800	12,396
Due to non-controlling equity holders of subsidiaries		32,941	32,183
Deferred government grants		146,604	145,412
Deferred tax liabilities		799,054	731,496
		8,460,320	9,276,423
Net assets			
		9,926,649	8,962,933

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
	<i>Notes</i>		
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	15,939	15,171
Reserves		6,269,394	5,600,133
		6,285,333	5,615,304
Non-controlling interests		3,641,316	3,347,629
Total equity		9,926,649	8,962,933

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Net cash inflow from operating activities	702,571	909,626
Net cash outflow from investing activities	(1,672,414)	(2,116,769)
Net cash (outflow)/inflow from financing activities	(793,310)	950,717
Decrease in cash and cash equivalents	(1,763,153)	(256,426)
Cash and cash equivalents at beginning of period	4,313,977	2,551,836
Effect of foreign exchange rates, net	18,347	(45,131)
Cash and cash equivalents at end of period	<u>2,569,171</u>	<u>2,250,279</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>2,569,171</u>	<u>2,250,279</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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	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
Balance at 1 April 2017	15,171	242,728	695,182	2,825	498,920	(157,319)	96,216	(343,822)	33,827	317,282	4,214,294	5,615,304	3,347,629	8,962,933
Share options exercised (note 20)	1,007	-	358,243	-	-	-	-	-	-	-	359,250	-	-	359,250
Share repurchase (note 20)	(239)	-	(110,047)	-	-	-	-	-	-	-	(110,286)	-	-	(110,286)
Share repurchase expenses (note 20)	-	-	(535)	-	-	-	-	-	-	-	(535)	-	-	(535)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	63,388	63,388
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	11	11	658	669
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	18,671	18,671
Equity settled share options expenses	-	-	-	-	-	-	592	-	-	-	592	-	-	592
Final dividend approved	-	(242,728)	-	-	(12,296)	-	-	-	-	-	(255,024)	-	-	(255,024)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(193,621)	(193,621)
Transactions with owners	768	(242,728)	247,661	-	(12,296)	-	592	-	-	-	11	(5,992)	(110,904)	(116,896)
Proposed interim dividend	-	127,512	-	-	(127,512)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	239	-	-	-	-	-	-	(239)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	537,015	537,015	320,588	857,603	
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	(13,749)	-	-	(13,749)	-	-	(13,749)
- Currency translation	-	-	-	-	-	157,486	-	-	-	-	157,486	84,003	241,489	
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	5,056	-	-	-	-	5,056	-	5,056	
- Recycling of reserves upon disposal of available-for-sale financial assets	-	-	-	-	-	-	-	(9,787)	-	-	(9,787)	-	(9,787)	
Total comprehensive income/ (loss) for the period	-	-	-	-	-	162,542	-	(23,536)	-	537,015	676,021	404,591	1,080,612	
Balance at 30 September 2017 (unaudited)	15,939	127,512	942,843	3,064	359,112	5,223	96,808	(343,822)	10,291	317,282	4,751,081	6,285,333	3,641,316	9,926,649

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Equity attributable to owners of the Company

	Share capital	Proposed dividend	Share premium account	Treasury shares	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Available-	Statutory reserves	Retained earnings	Total	Non-controlling interests	Total equity
										for-sale financial assets					
	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	HK\$'000
Balance at 1 April 2016 (restated)	15,199	75,995	735,256	-	2,559	800,392	187,249	121,357	(369,363)	17,888	279,256	3,399,586	5,263,372	3,183,070	8,446,442
Share repurchase (note 20)	(185)	-	(80,345)	(26,411)	-	-	-	-	-	-	-	-	(106,941)	-	(106,941)
Share repurchase expenses (note 20)	-	-	(362)	(95)	-	-	-	-	-	-	-	-	(457)	-	(457)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	1,265	1,265
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,585)	3,585	-	(78,632)	(78,632)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	110,026	110,026
Equity settled share options expenses	-	-	-	-	-	-	-	13,273	-	-	-	-	13,273	-	13,273
Final dividend approved	-	(75,993)	-	-	-	922	-	-	-	-	-	-	(75,071)	-	(75,071)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(47,318)	(47,318)
Transactions with owners	(185)	(75,993)	(80,707)	(26,506)	-	922	-	13,273	-	-	(3,585)	3,585	(169,196)	(146,589)	(183,855)
Proposed interim dividend	-	60,057	-	-	-	(60,057)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	-	185	-	-	-	-	-	-	(185)	-	-	-
Share of associate' reserves	-	-	-	-	-	-	-	(18,811)	5,406	-	-	-	(13,405)	-	(13,405)
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	429,052	429,052	242,930	671,982
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	2,176	-	-	2,176	-	2,176
- Currency translation	-	-	-	-	-	-	(133,980)	-	-	-	-	-	(133,980)	(125,576)	(259,556)
- Share of other comprehensive income of associates	-	-	-	-	-	-	(5,910)	-	-	-	-	-	(5,910)	-	(5,910)
- Recycling of currency translation differences upon disposal of a subsidiary	-	-	-	-	-	-	9,516	-	-	-	-	-	9,516	-	9,516
Total comprehensive (loss)/ income for the period	-	-	-	-	-	-	(130,374)	-	-	2,176	-	429,052	300,854	117,354	418,208
Balance at 30 September 2016 (unaudited)	15,014	60,057	652,549	(26,506)	2,744	741,257	56,875	115,819	(363,957)	20,064	275,671	3,832,038	5,381,625	3,285,765	8,667,390

Notes:

1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2017 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. Principal accounting policies

The 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 2017 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 2017.

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 2014-2016 cycle	1 January 2017
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses	1 January 2017

The adoption of the new and amendments to HKFRSs has had no significant effect on 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. 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 2017.

4. Financial risk management and fair value measurements

4.1 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 2017.

There have been no changes in the risk management policies since year ended 31 March 2017.

4.2 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 2017:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Available-for-sale financial assets	65,744	82,031	–	147,775
Financial assets at fair value through profit or loss	783	–	350,589	351,372
Derivative financial assets	–	–	19,015	19,015
Net fair values (unaudited)	<u>66,527</u>	<u>82,031</u>	<u>369,604</u>	<u>518,162</u>

The following table presents the Group's financial assets that are measured at fair value at 31 March 2017:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Available-for-sale financial assets	119,085	80,059	–	199,144
Financial assets at fair value through profit or loss	600	–	224,138	224,738
Derivative financial assets	–	–	45,298	45,298
Net fair values (audited)	<u>119,685</u>	<u>80,059</u>	<u>269,436</u>	<u>469,180</u>

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

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

4.3 Information about level 2 fair value measurements

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

4.4 Information about Level 3 fair value measurement

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

The fair values of derivative financial assets are determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is the expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 September 2017, it is estimated that with all other variables held constant, an increase in the expected volatility by 5% would have increased the Group's profit by HK\$447,000 (2016: HK\$454,000) while a decrease in the expected volatility by 5% would have decreased the Group's profit by HK\$384,000 (2016: HK\$929,000) for conversion option embedded in China City Infrastructure Convertible Bonds classified as derivative financial assets.

For the significant inputs for the derivative financial assets, please refer to note 13(a)(i).

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

	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Financial assets at fair value through profit or loss:		
Opening balance	224,138	–
Purchase of financial assets of fair value through profit or loss	350,589	224,138
Disposed of financial assets of fair value through profit or loss	(224,138)	–
Ending balance	350,589	224,138
Derivative financial assets:		
Opening balance	45,298	67,004
Changes in fair value recognised in profit or loss	(26,283)	(21,706)
Ending balance	19,015	45,298

5. 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	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Revenue:		
Water supply operation services	948,930	831,054
Water supply connection income	551,329	435,293
Water supply construction services	1,372,243	1,335,500
Sewage treatment and drainage operation services	123,330	120,335
Sewage treatment construction services	238,762	117,145
Sales of properties	163,831	–
Sales of goods	17,523	118,551
Hotel and rental income	31,967	11,595
Finance income	11,368	10,414
Handling income	10,389	11,826
Others	44,013	28,331
Total	<u>3,513,685</u>	<u>3,020,044</u>
Other income:		
Interest income	71,321	58,027
Government grants and subsidies*	55,456	23,148
Amortisation of deferred government grants	2,174	1,501
Gain on disposal of prepaid land lease payments	4,019	–
Dividend income from financial assets	8,494	7,904
Miscellaneous income	16,424	11,833
Total	<u>157,888</u>	<u>102,413</u>

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

6. 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 and drainage operation and construction" segment, involves the provision of water supply, sewage treatment and drainage operation and construction services; and
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

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

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 assets, finance costs, share of results of associates, corporate income, corporate expense, income tax expense, gain on disposal of a subsidiary and equity-settled share options expenses are excluded from segment results.

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

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 2017

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment and drainage operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue					
From external customers	2,920,214	373,964	178,649	40,858	3,513,685
From inter-segment	-	-	-	-	-
Segment revenue	<u>2,920,214</u>	<u>373,964</u>	<u>178,649</u>	<u>40,858</u>	<u>3,513,685</u>
Segment profit	<u>1,125,921</u>	<u>163,000</u>	<u>36,813</u>	<u>6,055</u>	<u>1,331,789</u>
Unallocated corporate income					79,820
Unallocated corporate expense					(90,541)
Equity-settled share options expenses					(592)
Change in fair value of derivative financial assets					(26,283)
Gain on disposal of a subsidiary					23,020
Finance costs					(158,717)
Share of results of associates	28,484	120	20	449	29,073
Profit before income tax					1,187,569
Income tax expense					(329,966)
Profit for the period					<u>857,603</u>
Total segment assets	<u>14,222,459</u>	<u>1,792,388</u>	<u>2,831,550</u>	<u>2,034,483</u>	<u>20,880,880</u>

For the period ended 30 September 2016

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment and drainage operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue					
From external customers	2,644,759	247,894	10,422	116,969	3,020,044
From inter-segment	-	-	-	-	-
Segment revenue	<u>2,644,759</u>	<u>247,894</u>	<u>10,422</u>	<u>116,969</u>	<u>3,020,044</u>
Segment profit/(loss)	<u>917,173</u>	<u>79,665</u>	<u>247,861</u>	<u>(3,958)</u>	1,240,741
Unallocated corporate income					66,167
Unallocated corporate expense					(91,052)
Equity-settled share options expenses					(13,273)
Change in fair value of derivative financial assets					(19,533)
Finance costs					(135,568)
Share of results of associates	28,714	189	(108,865)	(2,433)	<u>(82,395)</u>
Profit before income tax					965,087
Income tax expense					<u>(293,105)</u>
Profit for the period					<u>671,982</u>
Total segment assets	<u>12,298,121</u>	<u>1,270,629</u>	<u>2,080,990</u>	<u>1,106,737</u>	<u>16,756,477</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.

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

7. Operating profit

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Depreciation	24,996	21,696
Amortisation of prepaid land lease payments	9,819	7,105
Amortisation of other intangible assets	162,347	160,565

8. Finance costs

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Interest on bank loans	144,556	116,709
Interest on other loans	115,061	60,694
Total borrowing costs	259,617	177,403
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(100,900)	(41,835)
	158,717	135,568

9. 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 (2016: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Current income tax:		
– the PRC (<i>Note</i>)	287,606	194,839
Deferred tax	42,360	98,266
Total income tax expense	329,966	293,105

Note: The provision for PRC current income tax is based on a statutory income tax rate of 25% (2016: 25%) of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

10. 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\$537,015,000 (2016: HK\$429,052,000) and the weighted average of 1,537,599,506 (2016: 1,509,412,660) 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 period ended 30 September 2017 and 2016, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$537,015,000 (2016: HK\$429,052,000) and on the weighted average of 1,558,520,292 (2016: 1,522,162,718) ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,537,599,506 (2016: 1,509,412,660) used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 20,920,786 (2016: 12,750,058).

11. Dividends

Dividends attributable to the interim period:

	Six months ended 30 September	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Interim dividend		
– HK\$0.08 (2016: HK\$0.04) per ordinary share	127,512	60,057

The interim dividend proposed after the reporting date for the financial period ended 30 September 2017 and 2016 have not been recognised as a liability at the reporting date.

12. Property, plant and equipment, prepaid land lease payments and other intangible assets

During the six months ended 30 September 2017, the addition in property, plant and equipment amounted to HK\$97,226,000 (31 March 2017: HK\$91,748,000); prepaid land lease payments amounted to HK\$52,984,000 (31 March 2017: HK\$60,397,000); and other intangible assets amounted to HK\$1,319,344,000 (31 March 2017: HK\$2,024,739,000).

13. Other financial assets

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

		As at	
	<i>Notes</i>	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value	(i)	82,031	80,059
Listed equity securities in Hong Kong, at fair value	(ii)	65,744	119,085
Unlisted equity securities outside Hong Kong, at cost	(iii)	144,061	140,750
		291,836	339,894

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 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 2016. During the six months ended 30 September 2017 and the year ended 31 March 2017, there was no disposal or conversion of the China City Infrastructure Convertible Bonds.

On 13 November 2017, a principal amount of HK\$81,550,000 China City Infrastructure Convertible Bonds were converted into 215,683,681 ordinary shares of China City Infrastructure with a par value of HK\$0.1 each at the conversion price of HK\$0.3781. After the above conversion, the Group did not hold any China City Infrastructure Convertible Bonds.

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

The fair value of the debt element are based on the future cash flows discounted using the required yield, which was determined with reference to instruments of similar terms. The effected yield rate of the debt element at 30 September 2017 is 7.58%. The fair value of the debt element was determined by APAC Asset Valuation and Consulting Limited (“APAC”), an independent firm of professional valuers.

The fair value of the conversion options element at 30 September 2017 was determined by the directors of the Company with reference to the valuation performed by APAC on the Binomial model basis.

The major inputs used in the model are as follows:

	30 September 2017 (unaudited)	As at 31 March 2017 (audited)
Underlying stock price	HK\$0.46 per share	HK\$0.57 per share
Conversion price	HK\$0.3781	HK\$0.3781
Risk free rate	0.56%	0.38%
Expected volatility	59.633%	42.211%
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 HK\$'000	Conversion options element – Conversion options embedded in convertible bonds HK\$'000
Net carrying amount at 1 April 2016 (audited)	74,851	67,004
Change in fair value		
– charged to profit or loss	–	(21,706)
– credited to other comprehensive income	5,208	–
Net carrying amount at 31 March 2017 and at 1 April 2017 (audited)	80,059	45,298
Change in fair value		
– charged to profit or loss	–	(26,283)
– credited to other comprehensive income	1,972	–
Net carrying amount at 30 September 2017 (unaudited)	82,031	19,015

- (ii) The Group held listed equity securities of China City Infrastructure, which are stated at fair value.
- (iii) The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.
- (b) *Financial assets at fair value through profit or loss*

		As at	
		30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
		<i>Notes</i>	
Listed equity securities, at market value:			
– the PRC	(i)	783	600
Unlisted debt/equity securities	(ii)	350,589	224,138
		351,372	224,738

Notes:

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

14. Trade and bills receivables

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

	As at	
	30 September	31 March
	2017	2017
	(unaudited)	(audited)
	HK\$'000	HK\$'000
0 to 90 days	457,528	345,031
91 to 180 days	150,590	164,691
Over 180 days	348,932	362,169
	957,050	871,891

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.

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

15. Prepayments, deposits and other receivables

		As at	
		30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
<i>Notes</i>			
Non-current			
		9,177	13,701
		2,239	2,188
		11,416	15,889
Prepayments and other receivables	(i)	673,362	608,413
		684,778	624,302
Current			
		484,884	261,420
		1,262	1,265
Other receivables	(ii)	1,696,967	1,480,672
		2,183,113	1,743,357

Notes:

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

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.

16. Trade and bills payables

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

	As at	
	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
0 to 90 days	804,107	630,418
91 to 180 days	310,986	135,966
Over 180 days	355,948	330,667
	1,471,041	1,097,051

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

As at 30 September 2017, the bills payables of HK\$165,107,000 (31 March 2017: HK\$126,072,000) were secured by the pledged bank deposits of HK\$84,409,000 (31 March 2017: HK\$70,596,000).

17. Accrued liabilities, deposits received and other payables

		As at	
	<i>Notes</i>	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Non-current			
Deposits received		243,483	231,844
Current			
Accrued liabilities		409,864	114,168
Deposits received	(i)	688,271	749,491
Other payables	(ii)	1,215,390	1,237,946
		2,313,525	2,101,605

Notes:

- (i) Deposits received mainly included the followings:
- (a) Deposits from customers of HK\$391,131,000 (31 March 2017: HK\$384,825,000) in respect of the Group's city water supply operation and construction businesses.
 - (b) Deposits from customers of HK\$196,511,000 (31 March 2017: HK\$275,454,000) in respect of the Group's property development and investment businesses.
- (ii) Other payables mainly included water supply and sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$404,281,000 (31 March 2017: HK\$348,029,000); and payables for other PRC tax surcharges and construction costs.

18. Borrowings

	Original currency	As at	
		30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Current			
Bank loans – unsecured	RMB	602,729	682,551
Bank loans – secured	RMB	889,906	976,035
Bank loans due for repayment which contain a repayment on demand clause – unsecured (<i>note</i>)	USD	468,000	–
Bank loans – unsecured	USD	1,081,375	941,309
Other loans – unsecured	RMB	130,906	109,505
Other loans – secured	RMB	408,904	399,504
Other loans – secured	USD	62,400	62,400
Government loans – unsecured	RMB	34,009	34,571
		3,678,229	3,205,875
Non-current			
Bank loans – unsecured	RMB	528,674	474,556
Bank loans – secured	RMB	1,179,459	1,018,771
Bank loans – unsecured	USD	2,334,057	3,170,165
Other loans – unsecured	RMB	1,882	33,298
Other loans – unsecured	USD	2,269,206	2,271,405
Other loans – secured	RMB	696,978	899,346
Other loans – secured	USD	150,158	180,423
Government loans – unsecured	RMB	73,024	75,128
		7,233,438	8,123,092
		10,911,667	11,328,967

Note:

Due to the unconditional right to demand repayment stated in the relevant loan agreement, the current liabilities of the Group as at 30 September 2017 included bank loan of US\$60,000,000 (approximately HK\$468,000,000) that are not scheduled to repay within one year. It is classified as current liability as the related loan agreement contains a clause that provides the lender with an unconditional right to demand repayment at the third anniversary to the related loan agreement any time at its own discretion. The right will expire within twelve months from 30 September 2017 and the loan amount will be reclassified in accordance with the scheduled repayment.

19. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2017 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over shares of certain subsidiaries of the Group;
- (c) charges over property, plant and equipment in which their aggregate carrying amounts as at 30 September 2017 was HK\$636,463,000 (31 March 2017: HK\$587,168,000);
- (d) charges over interests in land use rights in which their aggregate carrying amounts as at 30 September 2017 was HK\$285,857,000 (31 March 2017: HK\$272,859,000);
- (e) charges over investment properties in which aggregate carrying amounts as at 30 September 2017 was HK\$227,604,000 (31 March 2017: HK\$109,728,000);
- (f) charges over other intangible assets in which their aggregate carrying amounts as at 30 September 2017 was HK\$585,618,000 (31 March 2017: HK\$510,411,000);
- (g) charges over the properties under development in which their aggregate carrying amounts as at 30 September 2017 was HK\$32,976,000 (31 March 2017: HK\$63,588,000);
- (h) charges over the properties held for sale in which their aggregate carrying amounts as at 30 September 2017 was HK\$4,922,000 (31 March 2017: Nil);
- (i) charges over the available-for-sale financial assets and derivative financial assets in which their aggregate carrying amounts as at 30 September 2017 were HK\$126,677,000 and HK\$Nil respectively (31 March 2017: HK\$322,909,000 and HK\$45,298,000); and
- (j) charges over the Group's bank deposits in amount of HK\$602,940,000 as at 30 September 2017 (31 March 2017: HK\$783,013,000).

20. Share capital

<i>Notes</i>	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each At 30 September 2017 and 31 March 2017	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2016 (audited)	1,519,861	15,199
Repurchased and cancelled (i)	(26,610)	(266)
Share option exercised (ii)	23,800	238
At 31 March 2017 (audited)	1,517,051	15,171
Repurchased and cancelled (i)	(23,850)	(239)
Share option exercised (ii)	100,700	1,007
At 30 September 2017 (unaudited)	1,593,901	15,939

Notes:

- (i) During the six month ended 30 September 2017 and the year ended 31 March 2017, the Company repurchased a total of 23,850,000 and 26,610,000 ordinary shares of the Company at an aggregate cost of approximately HK\$110,286,000 and HK\$121,031,000 respectively (excluding expenses). The highest price paid and the lowest price paid were HK\$5.25 and HK\$4.19 per share respectively for the six month ended 30 September 2017, and the highest price paid and the lowest price paid were HK\$5.92 and HK\$3.37 per share respectively for the year ended 31 March 2017. 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 month ended 30 September 2017, the subscription rights attaching to 32,700,000 and 68,000,000 (31 March 2017: 21,800,000 and 2,000,000) share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$3.50 and HK\$3.60 per share respectively, resulting in the issue of aggregate of 100,700,000 (31 March 2017: 23,800,000) shares of HK\$0.01 each for a total cash consideration of approximately HK\$359,250,000 (31 March 2017: HK\$83,500,000). The premium received was credited to the share premium account.
- (iii) Subsequent to the reporting date, 7,000,000 share options were exercised resulting in the issue of 7,000,000 ordinary shares of the Company and additional share capital of HK\$70,000 and share premium of HK\$24,430,000 (before issue expenses), and 3,000,000 share options were lapsed and cancelled accordingly.

At the date of approval of these financial statements, the Company has 8,000,000 share options outstanding under the share option schemes.

21. 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	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	34,098	30,522
– Retirement scheme contribution	288	239
– Equity-settled share options expenses	592	10,537
	34,978	41,298

22. Commitments and guarantee

(i) Capital commitments

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

	As at	
	30 September 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Contracted, but not provided for		
– Other intangible assets	201,355	169,909
– Property, plant and equipment	49,523	33,179
	250,878	203,088

(ii) *Operating lease arrangement***As lessee**

The Group leases certain of its leasehold land, properties and plant and machinery under operating lease arrangements for initial period ranging from one to twenty years. 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 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Within one year	35,702	31,776
In the second to fifth years, inclusive	130,503	122,639
After five years	215,382	229,834
	381,587	384,249

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 2017 (unaudited) HK\$'000	31 March 2017 (audited) HK\$'000
Within one year	21,721	18,599
In the second to fifth years, inclusive	37,501	35,010
After five years	1,528	661
	60,750	54,270

- (iii) As at 30 September 2017, the Group had given the guarantee to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$2,597,000 (31 March 2017: HK\$5,006,000).

In the opinion of the directors of the Company, 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.

23. Contingent liabilities

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

24. Event after the reporting period

Subsequent to the reporting date, disposal of the Group's interests in 143,231,135 ordinary shares in China City Infrastructure at the price of HK\$0.43 per share, amounting to a total consideration of approximately HK\$61,589,000 was completed.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.08 per ordinary share for the six months ended 30 September 2017 (2016: HK\$0.04 per ordinary share). The interim dividend is expected to be paid on or about Friday, 2 February 2018 to the shareholders whose names appear on the register of members on Wednesday, 20 December 2017.

BUSINESS REVIEW

The Group's total revenue increased from HK\$3,020.0 million for the six months ended 30 September 2016 to HK\$3,513.7 million for the six months ended 30 September 2017, representing a steady increase of 16.3%. The Group continued its strategy to focus on core business. For the period under review, the total revenue attributable to the "Water" segment amounted to HK\$3,294.2 million, which represented approximately 93.8% of the total revenue. For the corresponding period under review, the total revenue attributable to the "Water" segment amounted to HK\$2,892.7 million, which represented approximately 95.8% of the total revenue. This 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 amounted to HK\$2,920.2 million (2016: HK\$2,644.8 million), representing an increase of 10.4% 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\$1,125.9 million (2016: HK\$917.2 million), representing a steady increase of 22.8% as compared with the last corresponding period. This was mainly because of procurement of more construction and connection work driven by the continuation of urban-rural integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the new water projects during the 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 and drainage operation and construction amounted to HK\$374.0 million (2016: HK\$247.9 million), representing a significant increase of 50.9% as compared with the last corresponding period. The sewage treatment and drainage segment profit (including sewage treatment and drainage operation and construction) amounted to HK\$163.0 million (2016: HK\$79.7 million), representing a significant increase of 104.5% as compared with the last corresponding period. This was mainly because of procurement of more 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 and Hubei provinces of China.

For the period under review, the revenue from the property business segment amounted to HK\$178.6 million (2016: HK\$10.4 million). The total property business segment profit amounted to HK\$36.8 million (2016: HK\$247.9 million), representing a decrease of 85.2% as compared with the last corresponding period, which was mainly because the fair value gain on investment properties of HK\$247.6 million was recorded in last corresponding period.

For the period under review, the Group disposed of the entire interest in 長沙意峰房地產開發有限公司 and recorded a gain on disposal of a subsidiary amounted to HK\$23.0 million. For the corresponding period under review, the Group recorded a loss on share of results of China City Infrastructure Group Limited, in an amount of HK\$108.2 million. 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

During the period under review, the Group has been working closely with the local governments of the PRC, and with our superiority in construction, operation and management of water supply and sewage treatment businesses through all the years, we continuously enhance our efficiency, quality and services of water supply and extend our business coverage. Benefit from the refined management and improved operation through all the years, our water assets have entered gradually into the mature stage and the returns thereof are realising a steady growth.

During the period of the “Thirteenth Five Year Plans”, the central government has established specific plans for the urban-rural integrated water supply projects. It aimed to intensify the reform for market-oriented water rights and water price, and optimise the formation mechanism of water price and integrated management of water resources. It is expected that a market-oriented pricing mechanism of water price shall drive the diversification of investment entities in water industry and market-orientation of capital operation, as well as accelerating urban-rural integrated construction, co-ordination of regional water supply and integration of areas of water resources, specifically, the increasing demand from governments at various levels the investment and construction of professionalised green water infrastructures and fine operation and services, which provide huge opportunities for the water market.

Looking ahead, the Group will fully grasp the opportunities of the industry. We will uphold our business vision of “Water-Oriented, Kindness to Society”, develop in a sustainable way while striving for steady progress, make the best use of the base and advantages of Group’s existing businesses in various cities as well as our internal financial resources, so as to develop the urban-rural integrated projects and supply-drainage integrated projects, deepen geographical expansion, accelerate the development of our core business and merger and acquisition, continuously enhance our internal management, improve the Group’s core competitiveness, provide quality services to the public, as well as maximising returns for our shareholders.

The Company intends to follow a progressive dividend policy. In view of the steady growth in return generated by our water assets and the Group’s intention to dispose of its non-core assets in the coming few years and to use the proceeds from such possible disposals for its core businesses and/or dividend payment, the Company intends to increase its dividend payout ratio to not less than 30% of its basic earnings per share starting from the current financial year, subject to the financial performance and future funding needs of the Group.

CAPITAL RAISING

During the period ended 30 September 2017, the subscription rights attaching to 32,700,000 and 68,000,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$3.50 and HK\$3.60 per share respectively, resulting in the issue of aggregate of 100,700,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$359,250,000 (before expenses).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2017, the Group has total cash and deposits balances of approximately HK\$3,172.1 million (31 March 2017: HK\$5,097.0 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 63.1% (31 March 2017: 65.0%) as at 30 September 2017. The current ratio is 1.04 times (31 March 2017: 1.34 times) as at 30 September 2017. The decrease in current ratio is mainly due to repayment of long-term loans with higher interest rate and classification of long-term loan with repayment option amounting to USD60 million (approximately HK\$468 million) from non-current liability into current liability. The Group will closely monitor and balance its loan portfolio in order to improve its current ratio.

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 2017, the Group has employed approximately 7,400 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 2017, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company 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	469,120,301	–	29.43%
Ms. Ding Bin	Personal	5,500,000	–	0.35%
Ms. Liu Yu Jie	Personal	11,354,000	–	0.71%
Mr. Li Zhong (Note (ii))	Personal	29,527,457	–	1.85%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.27%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.05%
Ms. Wang Xiaoqin	Personal	6,660,000	–	0.42%
Ms. Ho Ping	Personal	978,000	–	0.06%

Notes:

- (i) These 469,120,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 251,076,000 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. Li Zhong	Personal	8,000,000	–	0.50%
Mr. Zhou Wen Zhi	Personal	1,000,000	–	0.06%
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 2017
		At 1 April 2017	Granted during the period	Exercised during the period	
Directors					
Mr. Duan Chuan Liang	2015 (a)	33,000,000	-	(33,000,000)	-
	2015 (b)	35,000,000	-	(35,000,000)	-
Ms. Liu Yu Jie	2015 (d)	3,000,000	-	(3,000,000)	-
Mr. Li Zhong	2016 (a)	4,000,000	-	-	4,000,000
	2016 (b)	4,000,000	-	-	4,000,000
Ms. Ding Bin	2015 (c)	2,500,000	-	(2,500,000)	-
	2015 (d)	2,500,000	-	(2,500,000)	-
Mr. Zhao Hai Hu	2015 (c)	1,000,000	-	(1,000,000)	-
	2015 (d)	1,500,000	-	(1,500,000)	-
Mr. Zhou Wen Zhi	2015 (c)	500,000	-	-	500,000
	2015 (d)	500,000	-	-	500,000
Ms. Wang Xiaoqin	2015 (c)	1,000,000	-	-	1,000,000
	2015 (d)	1,000,000	-	-	1,000,000
		<u>89,500,000</u>	<u>-</u>	<u>(78,500,000)</u>	<u>11,000,000</u>
Employees					
In aggregate	2015 (c)	10,500,000	-	(7,000,000)	3,500,000
	2015 (d)	18,700,000	-	(15,200,000)	3,500,000
		<u>29,200,000</u>	<u>-</u>	<u>(22,200,000)</u>	<u>7,000,000</u>
		<u>118,700,000</u>	<u>-</u>	<u>(100,700,000)</u>	<u>18,000,000</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 2017, 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 (Note (i))	Beneficial	469,120,301	-	-	29.43%	-	-
Asset Full Resources Limited (Note (ii))	Beneficial	218,044,301	-	-	13.68%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	18.27%	-	-

Notes:

- (i) Long positions in the underlying shares at 30 September 2017 is disclosed in the section headed "Share Option Scheme".
- (ii) These shares are beneficially owned by Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Mr. Duan Chuan Liang, the Chairman and executive director of the Company.

Save as disclosed above, as at 30 September 2017, so far as is known to any director or chief executive of the Company, no person (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company 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 2017, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

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

Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the 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 1 September 2017 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 2017 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 2017, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration (excluding expenses)
		per share HK\$	per share HK\$	HK\$
April 2017	3,282,000	5.22	5.05	16,902,000
May 2017	5,384,000	5.25	4.99	27,503,000
July 2017	3,200,000	4.27	4.19	13,505,000
August 2017	11,984,000	4.54	4.25	52,376,000

During the period ended 30 September 2017, the Company repurchased and cancelled a total of 23,850,000 ordinary shares of HK\$0.01 each in the capital of the Company. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 December 2017 to Wednesday, 20 December 2017 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 2017, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 15 December 2017.

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 2017 with the directors.

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

Hong Kong, 30 November 2017

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 Mr. Chau Kam Wing, Mr. Ong King Keung, Mr. Siu Chi Ming and Ms. Ho Ping.