

Interim Report  
**2016/17**



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

Stock code : 855

## 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

Ms. Liu Dong  
Mr. Chau Kam Wing  
Mr. Ong King Keung  
Mr. Siu Chi Ming

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### NOMINATION COMMITTEE

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

### 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

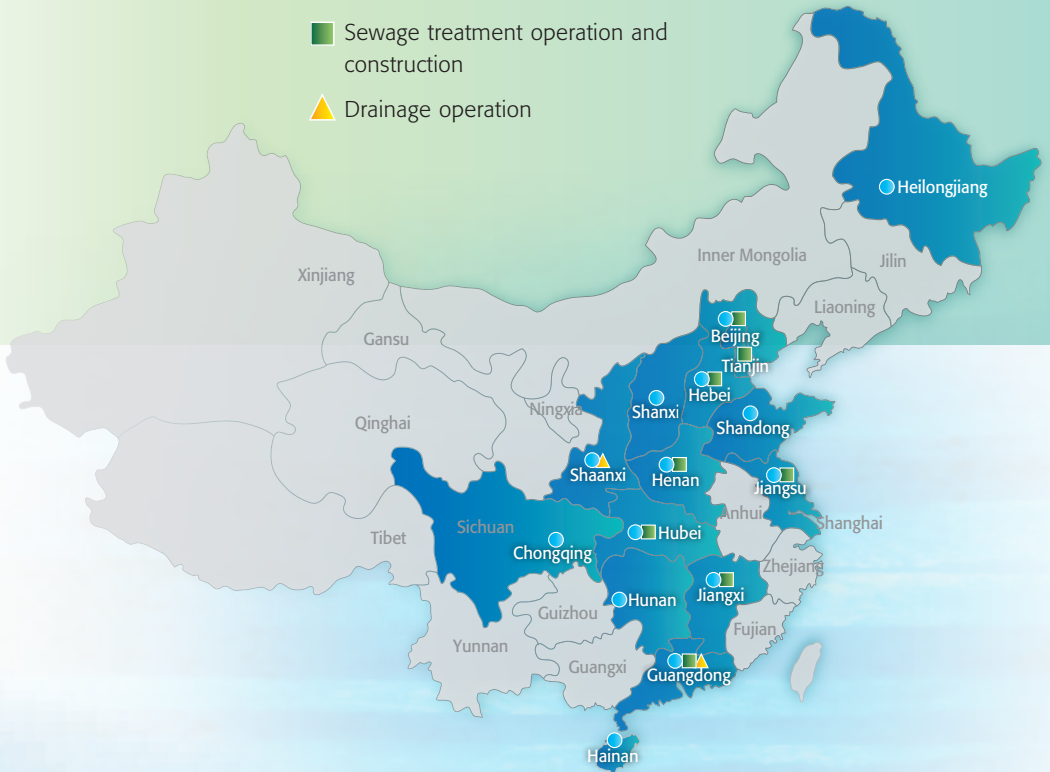
### STOCK CODE

855

### WEBSITE

[www.chinawatergroup.com](http://www.chinawatergroup.com)

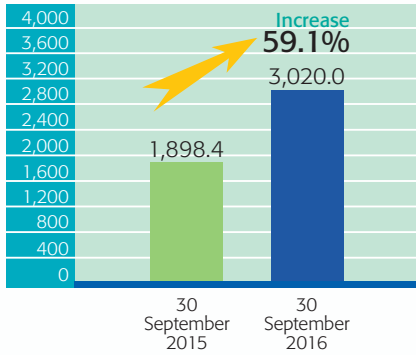
- City water supply operation and construction
  - Water supply connected users of approximately 2.6 million serving more than 8 million people
  - Water pipelines of approximately 130,000 km
- Sewage treatment operation and construction
- ▲ Drainage operation



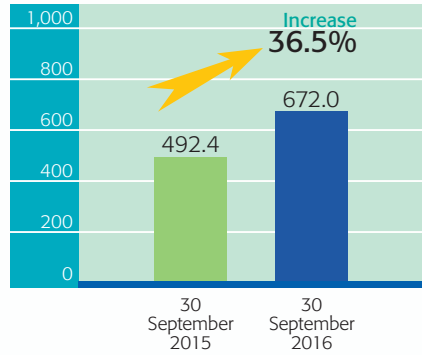
## FINANCIAL HIGHLIGHTS

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

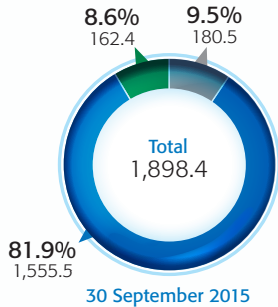
**Total revenue** (HK\$ million)



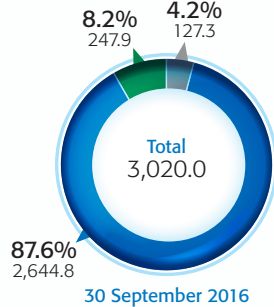
**Total profit** (HK\$ million)



**Total revenue** (HK\$ million)

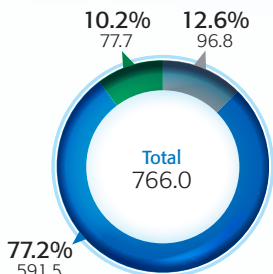


**Total revenue** (HK\$ million)



■ City water supply business ■ Sewage treatment and drainage business ■ Others

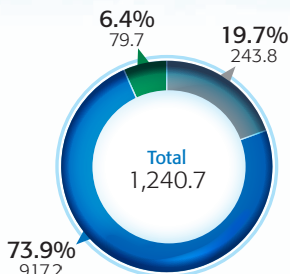
**Total segment profit** (HK\$ million)



30 September 2015

■ City water supply business ■ Sewage treatment and drainage business ■ Others

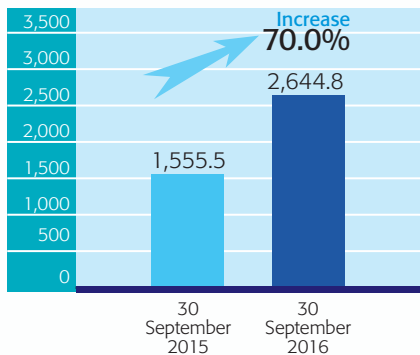
**Total segment profit** (HK\$ million)



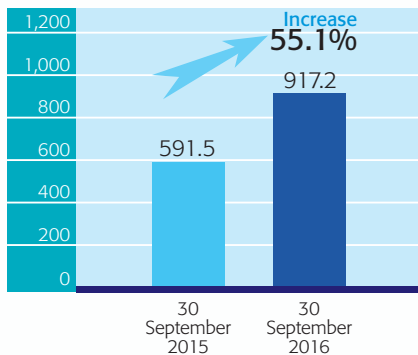
30 September 2016

## 1. Water Supply Business Analysis

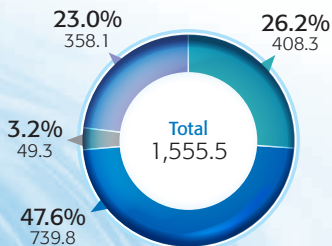
**City water supply operation and construction revenue** (HK\$ million)



**City water supply operation and construction profit** (HK\$ million)



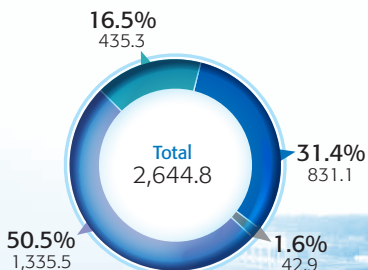
**City water supply operation and construction revenue** (HK\$ million)



30 September 2015

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

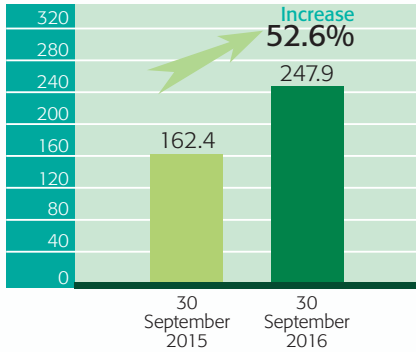
**City water supply operation and construction revenue** (HK\$ million)



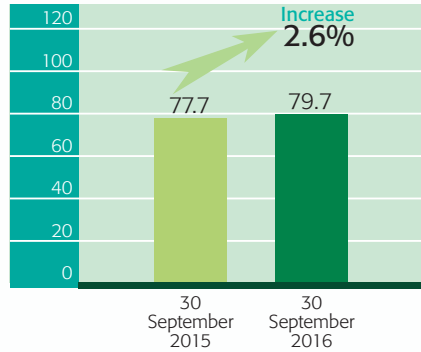
30 September 2016

## 2. Sewage Treatment and Drainage Business Analysis

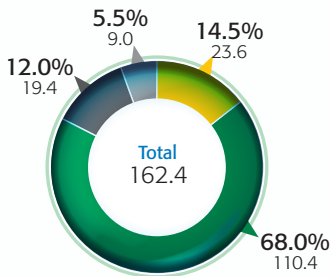
**Sewage treatment and drainage operation and construction revenue** (HK\$ million)



**Sewage treatment and drainage operation and construction profit** (HK\$ million)

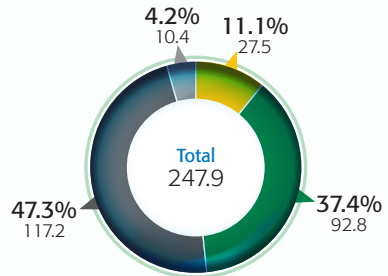


**Sewage treatment and drainage operation and construction revenue** (HK\$ million)



30 September 2015

**Sewage treatment and drainage operation and construction revenue** (HK\$ million)



30 September 2016

- Sewage treatment operation services
- Drainage operation services
- Sewage treatment construction services
- Others



## REVIEW REPORT



羅兵咸永道

### **INDEPENDENT PRACTITIONER'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA WATER AFFAIRS GROUP LIMITED**

*(originally incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

We have reviewed the interim condensed consolidated financial statements of China Water Affairs Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 8 to 45 that comprise the condensed consolidated statement of financial position as at 30 September 2016 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Directors' Responsibility for the Interim Condensed Consolidated Financial Statements**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting", and for such internal control as directors determine is necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Practitioner's Responsibility**

Our responsibility is to express a conclusion on the interim condensed consolidated financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our review in accordance with Hong Kong Standard on Review Engagements ("HKSRE") 2400 (Revised), "Engagements to Review Historical Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 30 November 2016



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 2016, together with the comparative figures for the corresponding period in 2015, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 September</b>	
		<b>2016 (unaudited)</b>	2015 (unaudited) (restated)
		<b>HK\$'000</b>	HK\$'000
	<i>Notes</i>		
<b>Revenue</b>	5	<b>3,020,044</b>	1,898,443
Cost of sales		<b>(1,773,554)</b>	(1,037,286)
<b>Gross profit</b>		<b>1,246,490</b>	861,157
Other income	5	<b>102,413</b>	122,560
Selling and distribution costs		<b>(74,965)</b>	(50,613)
Administrative expenses		<b>(305,701)</b>	(242,905)
Equity-settled share options expenses		<b>(13,273)</b>	(34,606)
Fair value gain on investment properties		<b>247,619</b>	62,299
Change in fair value of derivative financial instruments		<b>(19,533)</b>	(9,749)
Loss on repurchase/redemption of convertible bonds		<b>-</b>	(33)
<b>Profit from operation</b>	7	<b>1,183,050</b>	708,110
Finance costs	8	<b>(135,568)</b>	(92,515)
Share of results of associates		<b>(82,395)</b>	57,441
<b>Profit before income tax</b>		<b>965,087</b>	673,036
Income tax expense	9	<b>(293,105)</b>	(180,635)
<b>Profit for the period</b>		<b>671,982</b>	492,401

**CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)****Six months ended  
30 September**

	<b>2016 (unaudited)</b>	2015 (unaudited) (restated)
<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
<b>Profit for the period attributable to:</b>		
Owners of the Company	<b>429,052</b>	287,433
Non-controlling interests	<b>242,930</b>	204,968
	<b>671,982</b>	492,401
<b>Earnings per share for profit attributable to owners of the Company during the period</b>		
	10	
	<b>HK cents</b>	HK cents
Basic	<b>28.43</b>	19.20
Diluted	<b>28.19</b>	19.11

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) (restated) HK\$'000
<b>Profit for the period</b>	<b>671,982</b>	492,401
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss		
– Change in fair value of available-for-sale financial assets	<b>2,176</b>	4,090
– Currency translation	<b>(259,556)</b>	(96,418)
– Share of other comprehensive income of associates	<b>(5,910)</b>	–
– Reclassification adjustment – Disposal of subsidiaries	<b>9,516</b>	(127)
– Reclassification adjustment – Disposal of an associate	<b>–</b>	205
<b>Other comprehensive income for the period, net of tax</b>	<b>(253,774)</b>	(92,250)
<b>Total comprehensive income for the period</b>	<b>418,208</b>	400,151
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>292,403</b>	229,846
Non-controlling interests	<b>125,805</b>	170,305
	<b>418,208</b>	400,151

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		As at	
		30 September 2016 (unaudited) HK\$'000	31 March 2016 (restated) HK\$'000
	Notes		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	<b>581,093</b>	589,755
Prepaid land lease payments	12	<b>553,487</b>	555,104
Investment properties		<b>1,131,903</b>	908,346
Interests in associates		<b>1,315,454</b>	1,333,517
Available-for-sale financial assets	13(a)	<b>225,326</b>	226,767
Goodwill		<b>690,920</b>	663,668
Other intangible assets	12	<b>9,039,114</b>	8,041,454
Receivables under service concession arrangements		<b>608,561</b>	540,740
Deposits and prepayments	15	<b>139,236</b>	145,790
		<b>14,285,094</b>	13,005,141
<b>Current assets</b>			
Properties under development		<b>568,987</b>	523,551
Properties held for sale		<b>274,624</b>	273,302
Inventories		<b>379,153</b>	288,606
Trade and bills receivables	14	<b>1,059,357</b>	1,083,551
Receivables under service concession arrangements		<b>29,914</b>	29,765
Financial assets at fair value through profit or loss	13(b)	<b>672</b>	879
Due from non-controlling equity holders of subsidiaries		<b>207,962</b>	307,572
Due from associates		<b>1,403,041</b>	402,855
Prepayments, deposits and other receivables	15	<b>1,088,527</b>	970,239
Derivative financial assets	13(a)	<b>47,471</b>	67,004
Pledged deposits		<b>323,399</b>	466,762
Deposits and cash		<b>2,250,279</b>	2,551,836
		<b>7,633,386</b>	6,965,922

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2016 (unaudited) HK\$'000	31 March 2016 (restated) HK\$'000
	Notes		
<b>Current liabilities</b>			
Trade and bills payables	16	1,003,909	855,236
Accrued liabilities, deposits received and other payables	17	2,248,211	1,781,646
Due to non-controlling equity holders of subsidiaries		120,287	190,382
Due to associates		17,928	49,772
Borrowings	18	2,396,019	2,155,788
Provision for tax		550,627	524,147
		<u>6,336,981</u>	<u>5,556,971</u>
<b>Net current assets</b>			
		<u>1,296,405</u>	<u>1,408,951</u>
<b>Total assets less current liabilities</b>			
		<u>15,581,499</u>	<u>14,414,092</u>
<b>Non-current liabilities</b>			
Borrowings	18	5,872,341	5,076,242
Deposits received	17	218,809	192,415
Due to associates		14,159	11,951
Due to non-controlling equity holders of subsidiaries		33,333	17,073
Deferred government grants		127,865	99,809
Deferred tax liabilities		647,602	570,160
		<u>6,914,109</u>	<u>5,967,650</u>
<b>Net assets</b>			
		<u>8,667,390</u>	<u>8,446,442</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (restated) HK\$'000
		<i>Notes</i>	
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	20	<b>15,014</b>	15,199
Proposed dividend		<b>60,057</b>	75,993
Reserves		<b>5,306,554</b>	5,172,180
		<b>5,381,625</b>	5,263,372
<b>Non-controlling interests</b>		<b>3,285,765</b>	3,183,070
<b>Total equity</b>		<b>8,667,390</b>	8,446,442



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**Six months ended  
30 September**

	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) HK\$'000
Net cash inflow from operating activities	<b>909,626</b>	267,681
Net cash outflow from investing activities	<b>(2,116,769)</b>	(479,240)
Net cash inflow from financing activities	<b>950,717</b>	1,417,821
(Decrease)/increase in cash and cash equivalents	<b>(256,426)</b>	1,206,262
Cash and cash equivalents at beginning of period	<b>2,551,836</b>	1,400,748
Effect of foreign exchange rates, net	<b>(45,131)</b>	(2,135)
Cash and cash equivalents at end of period	<b>2,250,279</b>	2,604,875
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<b>2,250,279</b>	2,604,875

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## 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-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	HK\$'000
<b>Balance at 1 April 2016 (restated)</b> (note 26)	<b>15,199</b>	<b>75,993</b>	<b>733,256</b>	-	<b>2,559</b>	<b>800,392</b>	<b>187,249</b>	<b>121,357</b>	<b>(369,363)</b>	<b>17,888</b>	<b>279,256</b>	<b>3,399,586</b>	<b>5,263,372</b>	<b>3,183,070</b>	<b>8,446,442</b>
Share repurchase (note 20)	(185)	-	(80,345)	(26,411)	-	-	-	-	-	-	-	(106,941)	-	(106,941)	
Share repurchase expenses (note 20)	-	-	(362)	(95)	-	-	-	-	-	-	-	(457)	-	(457)	
Transfer to capital redemption reserve	-	-	-	-	185	-	-	-	-	-	-	(185)	-	-	
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	1,265	1,265	
Arising from disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(3,585)	3,585	-	(78,632)	(78,632)	
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	110,026	110,026	
Recognition of equity settled share-based compensation	-	-	-	-	-	-	-	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)	
<b>Transactions with owners</b>	<b>(185)</b>	<b>(75,993)</b>	<b>(80,707)</b>	<b>(26,506)</b>	<b>185</b>	<b>922</b>	<b>-</b>	<b>13,273</b>	<b>-</b>	<b>-</b>	<b>(3,585)</b>	<b>3,400</b>	<b>(169,196)</b>	<b>(14,659)</b>	<b>(183,855)</b>
<b>Proposed interim dividend</b>	<b>-</b>	<b>60,057</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(60,057)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Share of associate' reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,811)</b>	<b>5,406</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,405)</b>	<b>-</b>	<b>(13,405)</b>
Profit for the period	-	-	-	-	-	-	-	-	-	-	429,052	429,052	242,930	671,982	
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	2,176	2,176	
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	2,176	-	-	(133,980)	(125,576)	
- Currency translation	-	-	-	-	-	-	(133,980)	-	-	-	-	-	-	(259,556)	
- Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Disposal of a subsidiary	-	-	-	-	-	-	9,516	-	-	-	-	9,516	-	9,516	
- Share of other comprehensive income of associates	-	-	-	-	-	-	(5,910)	-	-	-	-	(5,910)	-	(5,910)	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(130,374)</b>	<b>-</b>	<b>-</b>	<b>2,176</b>	<b>-</b>	<b>-</b>	<b>(128,198)</b>	<b>(125,576)</b>	<b>(253,774)</b>
<b>Balance at 30 September 2016 (unaudited)</b>	<b>15,014</b>	<b>60,057</b>	<b>652,549</b>	<b>(26,506)</b>	<b>2,744</b>	<b>741,257</b>	<b>56,875</b>	<b>115,819</b>	<b>(363,957)</b>	<b>20,064</b>	<b>275,671</b>	<b>3,832,038</b>	<b>5,381,625</b>	<b>3,285,765</b>	<b>8,667,390</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

### Equity attributable to owners of the Company

	Share capital	Proposed dividend	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	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
<b>Balance at 1 April 2015 (restated)</b> (note 26)	<b>14,447</b>	<b>57,787</b>	<b>429,790</b>	<b>2,559</b>	<b>924,988</b>	<b>363,895</b>	<b>48,667</b>	<b>(385,954)</b>	<b>11,065</b>	<b>220,908</b>	<b>2,849,822</b>	<b>4,537,974</b>	<b>2,674,732</b>	<b>7,212,706</b>
Share issued in respect of conversion of convertible bonds (note 20)	91	-	30,511	-	-	-	-	-	-	-	-	30,602	-	30,602
Share issued in respect of acquisition of subsidiaries (note 20)	292	-	123,840	-	-	-	-	-	-	-	-	124,132	-	124,132
Subscription of new shares (note 20)	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)
<b>Transactions with owners</b>	<b>752</b>	<b>(57,787)</b>	<b>303,465</b>	<b>-</b>	<b>(3,007)</b>	<b>-</b>	<b>34,606</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>278,029</b>	<b>116,167</b>	<b>394,196</b>
<b>Proposed interim dividend</b>	<b>-</b>	<b>45,596</b>	<b>-</b>	<b>-</b>	<b>(45,596)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Share of associate' reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,426</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,426</b>	<b>-</b>	<b>24,426</b>
Profit for the period (restated) (note 26)	-	-	-	-	-	-	-	-	-	-	287,433	287,433	204,968	492,401
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	4,090	-	-	4,090	-	4,090
- Currency translation	-	-	-	-	-	(61,755)	-	-	-	-	-	(61,755)	(34,663)	(96,418)
- Reclassification adjustment	-	-	-	-	-	(127)	-	-	-	-	-	(127)	-	(127)
- Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Reclassification adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Disposal of an associate	-	-	-	-	-	205	-	-	-	-	-	205	-	205
<b>Total comprehensive income for the period (restated) (note 26)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(61,677)</b>	<b>-</b>	<b>-</b>	<b>4,090</b>	<b>-</b>	<b>-</b>	<b>(57,587)</b>	<b>(34,663)</b>	<b>(92,250)</b>
<b>Balance at 30 September 2015 (unaudited) (restated) (note 26)</b>	<b>15,199</b>	<b>45,596</b>	<b>733,255</b>	<b>2,559</b>	<b>876,385</b>	<b>302,218</b>	<b>107,699</b>	<b>(385,954)</b>	<b>15,155</b>	<b>220,908</b>	<b>3,137,255</b>	<b>5,070,275</b>	<b>2,961,204</b>	<b>8,031,479</b>

Notes:

## 1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2016 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 2016, 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 2016 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 2016.

In preparing the interim condensed consolidated financial statements for the six months ended 30 September 2016, the management has made certain prior period adjustments in relation to service concession arrangements of its water business, the details of which are set out in note 26.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

		<b>Effective for accounting periods beginning on or after</b>
HKAS 1 (Amendments)	Disclosure Initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendments)	Agriculture Bearer Plants	1 January 2016
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for Acquisition of Interests in Joint Operations	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
Annual improvements 2012-2014 cycle	Improvements to HKFRSs	1 January 2016

The adoption of the new standards and amendments to 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. 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, except for the prior period adjustments in relation to service concession arrangements set out in note 26 and the critical accounting estimate and judgement listed below, 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 2016.

#### *Determination of fair value of contract revenue in respect of the construction services rendered*

Revenue from construction services under the terms of the concession agreements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in the People's Republic of China ("PRC"). Revenue is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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

#### 4. Financial risk management and financial instruments

##### 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 2016.

There have been no changes in the risk management policies since year ended 31 March 2016.

##### 4.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 30 September 2016:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
Available-for-sale financial assets	–	77,027	–	77,027
Financial assets at fair value through profit or loss	672	–	–	672
Derivative financial assets	–	–	47,471	47,471
<b>Total assets (unaudited)</b>	<b>672</b>	<b>77,027</b>	<b>47,471</b>	<b>125,170</b>



The following table presents the Group's financial assets that are measured at fair value at 31 March 2016:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
Available-for-sale financial assets	–	74,851	–	74,851
Financial assets at fair value through profit or loss	879	–	–	879
Derivative financial assets	–	–	67,004	67,004
<b>Total assets (audited)</b>	<b>879</b>	<b>74,851</b>	<b>67,004</b>	<b>142,734</b>

There were no transfers between the Levels during the period.

There were no changes in the methods and valuation techniques during the period.

#### 4.3 Valuation techniques used to derive Level 2 fair values

Level 2 debt investments are fair valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

#### 4.4 Fair value measurements using significant unobservable inputs (Level 3)

The fair values of derivative financial instruments 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 2016, 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\$454,000 (2016: HK\$1,358,000) while a decrease in the expected volatility by 5% would have decreased the Group's profit by HK\$929,000 (2016: HK\$1,375,000) for conversion option embedded in China City Infrastructure Convertible Bonds classified as derivative financial assets.

Significant inputs as follows:

#### Derivative financial assets – conversion option embedded in China City Infrastructure Convertible Bonds

	30 September 2016 (unaudited) HK\$'000	31 March 2016 (audited) HK\$'000
Underlying stock price	HK\$0.53 per share	HK\$0.59 per share
Conversion price	HK\$0.3781 per share	HK\$0.3781 per share
Risk-free rate	0.39%	0.42%
Expected volatility	60.274%	72.900%
Expected dividend yield	Nil	Nil

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

	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
<b>Derivative financial assets:</b>		
Opening balance	<b>67,004</b>	99,952
Changes in fair value recognised in profit or loss during the period/year attributable to financial assets held at the reporting date	<b>(19,533)</b>	(32,948)
Ending balance	<b>47,471</b>	67,004
<b>Derivative financial liabilities:</b>		
Opening balance	–	2,987
Arising from repurchases, redemption and conversion	–	(2,987)
Ending balance	–	–

## 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:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) (restated) HK\$'000
<b>Revenue:</b>		
Water supply operation services	<b>831,054</b>	739,846
Water supply connection income	<b>435,293</b>	408,271
Water supply construction services	<b>1,335,500</b>	358,100
Sewage treatment and drainage operation services	<b>120,335</b>	134,003
Sewage treatment construction services	<b>117,145</b>	19,421
Sales of goods	<b>118,551</b>	157,180
Hotel and rental income	<b>11,595</b>	17,180
Finance income	<b>10,414</b>	8,981
Income from financial guarantee service	–	8,564
Handling income	<b>11,826</b>	6,029
Others	<b>28,331</b>	40,868
Total	<b>3,020,044</b>	1,898,443
<b>Other income:</b>		
Interest income	<b>58,027</b>	59,849
Government grants and subsidies *	<b>23,148</b>	13,465
Amortisation of deferred government grants	<b>1,501</b>	1,746
Dividend income from financial assets	<b>7,904</b>	8,912
Gain on disposal of prepaid land lease payments	–	28,129
Miscellaneous income	<b>11,833</b>	10,459
Total	<b>102,413</b>	122,560

\* 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" segments involve the provision of water supply, sewage treatment and drainage operation and construction services;
- (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, 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 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	Concrete related products and services (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
<b>Revenue</b>						
From external customers	2,644,759	247,894	10,422	99,733	17,236	3,020,044
From inter-segment	-	-	-	-	-	-
<b>Segment revenue</b>	<u>2,644,759</u>	<u>247,894</u>	<u>10,422</u>	<u>99,733</u>	<u>17,236</u>	<u>3,020,044</u>
<b>Segment profit/(loss)</b>	<u>917,173</u>	<u>79,665</u>	<u>247,861</u>	<u>4,939</u>	<u>(8,897)</u>	<u>1,240,741</u>
Unallocated corporate income						66,167
Unallocated corporate expense						(91,052)
Equity-settled share options expenses						(13,273)
Change in fair value of derivative financial instruments						(19,533)
Finance costs						(135,568)
Share of results of associates	28,714	189	(108,865)	-	(2,433)	(82,395)
Profit before income tax						965,087
Income tax expense						(293,105)
<b>Profit for the period</b>						<u>671,982</u>
<b>Total segment assets</b>	<u>12,298,121</u>	<u>1,270,629</u>	<u>2,080,990</u>	<u>337,389</u>	<u>769,348</u>	<u>16,756,477</u>

For the financial period ended 30 September 2015

	City water supply operation and construction (unaudited) (restated) HK\$'000	Sewage treatment and drainage operation and construction (unaudited) (restated) HK\$'000	Property development and investment (unaudited) (restated) HK\$'000	Concrete related products and services (unaudited) (restated) HK\$'000	All other segments (unaudited) (restated) HK\$'000	Total (unaudited) (restated) HK\$'000
<b>Revenue</b>						
From external customers	1,555,521	162,405	15,178	123,943	41,396	1,898,443
From inter-segment	-	-	-	-	-	-
<b>Segment revenue</b>	<u>1,555,521</u>	<u>162,405</u>	<u>15,178</u>	<u>123,943</u>	<u>41,396</u>	<u>1,898,443</u>
<b>Segment profit</b>	<u>591,496</u>	<u>77,749</u>	<u>61,534</u>	<u>20,815</u>	<u>14,456</u>	766,050
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 repurchase/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						673,036
Income tax expense						(180,635)
<b>Profit for the period</b>						<u>492,401</u>
<b>Total segment assets</b>	<u>9,897,372</u>	<u>1,027,961</u>	<u>1,693,308</u>	<u>383,852</u>	<u>928,516</u>	<u>13,931,009</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.



**7. Profit from operation**

Profit from operation is arrived at after charging:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) (restated) HK\$'000
Depreciation	<b>21,696</b>	33,065
Amortisation of prepaid land lease payments	<b>7,105</b>	8,391
Amortisation of other intangible assets	<b>160,565</b>	111,212

**8. Finance costs**

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) HK\$'000
Interest on bank loans	<b>116,709</b>	105,874
Interest on other borrowings	<b>60,694</b>	41,844
Interest on convertible bonds	<b>–</b>	69
Total borrowing costs	<b>177,403</b>	147,787
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	<b>(41,835)</b>	(55,272)
	<b>135,568</b>	92,515

## 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 (2015: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) (restated) HK\$'000
Current		
– PRC	<b>194,839</b>	152,191
Deferred		
– tax charge for the period	<b>98,266</b>	28,444
Total tax charge for the period	<b>293,105</b>	180,635

## 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\$429,052,000 (2015: HK\$287,433,000, restated) and the weighted average of 1,509,412,660 (2015: 1,497,180,266) 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 2016, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$429,052,000 and on the weighted average of 1,522,162,718 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,509,412,660 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 12,750,058.

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\$287,433,000 (restated) 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.

**11. Dividends**

Dividends attributable to the interim period

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) HK\$'000
Interim dividend		
– HK\$0.04 (2015: HK\$0.03) per ordinary share	<b>60,057</b>	45,596

The interim dividend proposed after the reporting date for the financial period ended 30 September 2016 and 2015 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 2016 and 2015 respectively.

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

During the six months ended 30 September 2016, the addition in property, plant and equipment of HK\$25,572,000 (31 March 2016: HK\$66,601,000), prepaid land lease payments of HK\$16,978,000 (31 March 2016: HK\$24,488,000), and other intangible assets of HK\$1,301,647,000 (31 March 2016: HK\$1,355,344,000).

**13. Other financial assets**

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

	<b>As at</b>	
	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (i))	<b>77,027</b>	74,851
Unlisted equity securities outside Hong Kong, at cost (note (ii))	<b>148,299</b>	151,916
	<b>225,326</b>	226,767

*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 2015. During the six months ended 30 September 2016 and the year ended 31 March 2016, there was no disposal or conversion of the China City Infrastructure Convertible Bonds.

The China City Infrastructure Convertible Bonds are separated into two components: the debt element and the conversion options element. The Group has classified the debt element of the China City Infrastructure Convertible Bonds as available-for-sale financial assets and the conversion options element of the China City Infrastructure Convertible Bonds as derivative financial 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 effected yield rate of the debt element at 30 September 2016 is 9.64%. The fair value of the debt element was determined by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers.

The fair value of the conversion options element was 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:

	<b>As at</b>	
	<b>30 September 2016 (unaudited)</b>	31 March 2016 (audited)
Stock price	<b>HK\$0.53</b>	HK\$0.59
Expected volatility	<b>60.274%</b>	72.900%
Risk free rate	<b>0.39%</b>	0.42%
Expected dividend yield	<b>Nil</b>	Nil

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

	<b>Debt element – Unlisted debt securities</b>	<b>Conversion options element – Conversion options embedded in convertible bonds</b>
	HK\$'000	HK\$'000
<b>Net carrying amount at 1 April 2015 (audited)</b>	68,028	99,952
Change in fair value		
– charged to profit or loss	–	(32,948)
– credited to equity	6,823	–
<b>Net carrying amount at 31 March 2016 and at 1 April 2016 (audited)</b>	74,851	67,004
Change in fair value		
– charged to profit or loss	–	(19,533)
– credited to equity	2,176	–
<b>Net carrying amount at 30 September 2016 (unaudited)</b>	<b>77,027</b>	<b>47,471</b>

- (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*

	<b>As at</b>	
	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
Listed equity securities, at market value: (Note) – PRC	<b>672</b>	879

*Note:* 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.

**14. Trade and bills receivables**

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

	<b>As at</b>	
	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
0 to 90 days	<b>399,995</b>	627,052
91 to 180 days	<b>364,954</b>	229,133
Over 180 days	<b>294,408</b>	227,366
	<b>1,059,357</b>	1,083,551

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.

## 15. Prepayments, deposits and other receivables

		As at	
		30 September 2016 (unaudited) HK\$'000	31 March 2016 (audited) HK\$'000
		<i>Notes</i>	
<b>Non-current</b>			
Deposits for acquisition of equity securities		<b>99,762</b>	102,195
Other deposits	(i)	<b>2,266</b>	13,053
		<b>102,028</b>	115,248
Prepayments and other receivables	(ii)	<b>37,208</b>	30,542
		<b>139,236</b>	145,790
<b>Current</b>			
Prepayments		<b>491,191</b>	313,541
Deposits		<b>3,447</b>	4,133
Other receivables	(iii)	<b>593,889</b>	652,565
		<b>1,088,527</b>	970,239

*Notes:*

- (i) The balances mainly represented deposits paid for acquisition of land use rights for the Group's business expansion.
- (ii) The balances mainly represented prepaid rental of land situated in the PRC and prepayments for construction work for own use.
- (iii) 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 the Group's trade and bills payables based on invoice dates is as follows:

	<b>As at</b>	
	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
0 to 90 days	<b>556,517</b>	517,141
91 to 180 days	<b>229,190</b>	183,559
Over 180 days	<b>218,202</b>	154,536
	<b><u>1,003,909</u></b>	<u>855,236</u>

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

As at 30 September 2016, the bills payables of HK\$87,084,000 (31 March 2016: HK\$138,293,000) were secured by the pledged bank deposits of HK\$46,438,000 (31 March 2016: HK\$51,632,000).

**17. Accrued liabilities, deposits received and other payables**

		<b>As at</b>	
	<i>Notes</i>	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
<b>Non-current</b>			
Deposits received		<b><u>218,809</u></b>	<u>192,415</u>
<b>Current</b>			
Accrued liabilities		<b>100,783</b>	74,374
Deposits received	(i)	<b>718,908</b>	585,297
Other payables	(ii)	<b>1,428,520</b>	1,121,975
		<b><u>2,248,211</u></b>	<u>1,781,646</u>

Notes:

- (i) Deposits received mainly included (a) deposits from customers for the Group's city water supply operation and construction businesses; (b) deposits from customers for the Group's property development and investment businesses; and (c) deposits received of HK\$94,869,000 (31 March 2016: HK\$94,869,000) in respect of the proposed disposal of certain equity interest of China City Infrastructure held by the Group.
- (ii) Other payables mainly included sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$325,572,000 (31 March 2016: HK\$331,179,000) in respect of the Group's city water supply operation and construction businesses; and payables for other PRC tax surcharges and construction costs.



**18. Borrowings**

		<b>As at</b>	
	Original currency	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
<b>Current</b>			
Bank loans – unsecured	RMB	<b>468,245</b>	319,490
Bank loans – secured	RMB	<b>585,270</b>	664,939
Bank loans due for repayment within one year – unsecured	USD	<b>719,624</b>	748,591
Bank loans – unsecured	HK\$	<b>–</b>	8,333
Other loans – unsecured	RMB	<b>124,138</b>	159,649
Other loans – secured	RMB	<b>401,149</b>	158,537
Other loans – secured	USD	<b>62,400</b>	60,559
Government loans – unsecured	RMB	<b>35,193</b>	35,690
		<b>2,396,019</b>	2,155,788
<b>Non-current</b>			
Bank loans – unsecured	RMB	<b>472,565</b>	464,690
Bank loans – secured	RMB	<b>745,254</b>	517,561
Bank loans – unsecured	USD	<b>2,687,436</b>	3,071,228
Bank loans – secured	USD	<b>530,261</b>	–
Other loans – unsecured	RMB	<b>45,678</b>	54,147
Other loans – secured	RMB	<b>1,093,137</b>	635,365
Other loans- secured	USD	<b>210,687</b>	242,793
Government loans – unsecured	RMB	<b>87,323</b>	90,458
		<b>5,872,341</b>	5,076,242
		<b>8,268,360</b>	7,232,030

**19. Pledge of assets**

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2016 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 interests in land use rights in which their aggregate carrying amounts as at 30 September 2016 was HK\$132,822,000 (31 March 2016: HK\$197,157,000);
- (d) charges over investment properties in which their aggregate carrying amounts as at 30 September 2016 was HK\$193,214,000 (31 March 2016: HK\$196,783,000);
- (e) charges over other intangible assets in which their aggregate carrying amounts as at 30 September 2016 was HK\$403,916,000 (31 March 2016: HK\$467,037,000, restated);
- (f) charges over the properties under development in which their aggregate carrying amounts as at 30 September 2016 was HK\$62,070,000 (31 March 2016: HK\$63,584,000);
- (g) charges over the interests in associates in which their aggregate carrying amounts as at 30 September 2016 was HK\$652,462,000 (31 March 2016: HK\$778,031,000);
- (h) charges over the available-for-sale financial assets and derivative financial assets in which their aggregate carrying amounts as at 30 September 2016 were HK\$205,212,000 and HK\$47,471,000 respectively (31 March 2016: HK\$206,162,000 and HK\$67,004,000); and
- (i) charges over the Group's bank deposits in amount of HK\$323,399,000 as at 30 September 2016 (31 March 2016: HK\$466,762,000).

**20. Share capital**

<i>Notes</i>	<b>Number of shares '000</b>	<b>Par value HK\$'000</b>
Authorised:		
Ordinary shares of HK\$0.01 each At 30 September 2016 and 31 March 2016	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each At 1 April 2015 (audited)	1,444,683	14,447
Subscription of new shares Share issued in respect of acquisition of subsidiaries	(i) 36,907 (ii) 29,208	369 292
Shares issued in respect of conversion of convertibles bonds	(iii) 9,063	91
Ordinary shares of HK\$0.01 each At 31 March 2016 and 1 April 2016 (audited)	1,519,861	15,199
Repurchased and cancelled	(iv) (18,438)	(185)
At 30 September 2016 (unaudited)	1,501,423	15,014

*Notes:*

- (i) On 15 May 2015, the Company entered into a subscription agreement with International Finance Corporation ("IFC"), pursuant to which IFC conditionally subscribed 36,907,143 new shares of the Company at HK\$4.20 each. On 29 May 2015, the subscription was completed and raised gross proceeds of approximately HK\$155 million (before expenses). The premium received was credited to the share premium account.
- (ii) On 27 April 2015, the Group entered into an agreement with AIRRO Cayman Holdings IV Corp and Ms. Lu Hai, that the Group conditionally acquired 100% of equity interests of Goldtrust Water Holdings Limited and its subsidiaries ("Goldtrust Water Group") and 9.7% of equity interest in Shenzhen Bus Group Co., Ltd. at the total cash consideration of US\$109,712,736. Supplemental agreement was entered between the Group and Ms. Lu Hai on 28 April 2015 that the Group issued and allotted 29,207,457 new shares 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 fair value of the consideration shares at the date of issuance amounted to HK\$124,132,000. The premium received was credited to the share premium account.
- (iii) During the year ended 31 March 2016, approximately 9,063,000 (during the six months ended 30 September 2016: Nil) shares were issued in respect of conversion of the convertible bonds at HK\$2.88 per ordinary share of the Company.

- (iv) During the six months ended 30 September 2016, the Company repurchased a total of 23,966,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$107,398,000. The highest price paid and the lowest price paid were HK\$5.01 and HK\$3.37 per share respectively. 18,438,000 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.

The remaining 5,528,000 repurchased shares with a repurchased cost of approximately HK\$26,506,000 (including expenses) were held as treasury shares as at 30 September 2016.

## 21. Business Combinations

On 26 April 2016, the Group entered into an agreement with 馬來西亞檳榔水業有限公司 to acquire 100% equity interest in 江西省宜春檳榔水業有限公司 ("Yichun Pinang Water") at a consideration of HK\$65,476,000. Yichun Pinang Water is principally engaged in water supply operation. The acquisition was completed in June 2016.

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

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

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

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

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

During the period ended 30 September 2016, the Group has paid part of the cash consideration of HK\$45,833,000 to the vendor. The remaining balance of HK\$19,643,000 due to the vendor was included in other payables as at 30 September 2016.

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

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

As at the date of the report, the valuation of identifiable assets and liabilities and the purchase price allocation have not been completed and the fair value of assets and liabilities stated above is provisional.

## 22. Related party transactions

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

- (a) Compensation of key management personnel of the Group:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	<b>30,522</b>	23,521
– Retirement scheme contribution	<b>239</b>	151
– Equity-settled share options expenses	<b>10,537</b>	25,249
	<b>41,298</b>	48,921

- (b) The Group had the following transactions with the associates:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2016 (unaudited) HK\$'000</b>	2015 (unaudited) HK\$'000
Interest income from amounts due from associates	<b>47,593</b>	32,913

## 23. Commitments and guarantee

- (i) *Commitments for the purchase of property, plant and equipment*

At 30 September 2016 and 31 March 2016, the Group had no material commitments for the purchase of property, plant and equipment.

- (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:

	<b>As at</b>	
	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
Within one year	<b>33,676</b>	35,813
In the second to fifth years, inclusive	<b>127,818</b>	135,549
After five years	<b>253,093</b>	273,270
	<b>414,587</b>	444,632

#### **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:

	<b>As at</b>	
	<b>30 September 2016 (unaudited) HK\$'000</b>	31 March 2016 (audited) HK\$'000
Within one year	<b>20,334</b>	26,986
In the second to fifth years, inclusive	<b>37,781</b>	45,037
After five years	<b>4,782</b>	2,349
	<b>62,897</b>	74,372

- (iii) As at 30 September 2016, the Group had given the guarantee to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$6,655,000 (31 March 2016: HK\$7,204,000).

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.



## 24. Contingent liabilities

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

## 25. Event after the reporting period

On 28 November 2016, the Group entered into a supplemental agreement and a second sell and purchase agreement to dispose of its equity interest of 668,912,000 shares in total (representing approximately 29.0% of the total number of issued shares) in China City Infrastructure, an associate of the Group as at 30 September 2016, at the price of HK\$0.8 per share. The transaction is not yet completed on 30 November 2016 and is subject to fulfilment or waiver of the conditions precedent set out in the relevant agreements. The total consideration of HK\$535.1 million is intended to be used for future city water supply and sewage treatment related business developments and general working capital of the Group. The gain or loss on disposal is subject to the carrying amount of the interest in the shares upon the completion of the transaction.

## 26. Prior period adjustments

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

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

In preparing the interim condensed consolidated financial statements for the six months ended 30 September 2016, the management has reassessed the accounting treatment of those service concession agreements.

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

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

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

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

The following adjustments are made:

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

As the Group receives a right to charge users for the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service, the water supply infrastructure should be classified as an intangible asset.

Consequently, the water supply infrastructures previously classified as property, plant and equipment was reclassified to other intangible assets in accordance with the policy set out for “Service concession arrangements” in note 4.13 and “Intangible assets (other than goodwill)” in note 4.9 in the annual financial statements for the year ended 31 March 2016. Besides, these intangible assets are amortised on a straight-line basis over the terms of remaining service concession periods.

2. *Recognition of revenue and costs relating to construction or upgrade services in connection with water supply infrastructure*

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

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

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

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

The Group's condensed consolidated statement of financial position as at 31 March 2016 and the condensed consolidated statement of comprehensive income and the condensed consolidated statement of changes in equity for the six months ended 30 September 2015 and certain explanatory notes have been restated retrospectively to reflect impact of these adjustments.

Impact on the condensed consolidated statement of comprehensive income for the six months ended 30 September 2015:

	<b>As previously reported</b>	<b>Prior period adjustments</b>	<b>As restated</b>
	HK\$'000	HK\$'000	HK\$'000
Revenue	1,638,121	260,322	1,898,443
Cost of sales	(832,375)	(204,911)	(1,037,286)
Income tax expense	(169,992)	(10,643)	(180,635)
Profit for the period	447,633	44,768	492,401
Other comprehensive income			
– Currency translation	(82,024)	(14,394)	(96,418)
Total comprehensive income for the period	369,777	30,374	400,151
Total comprehensive income for the period attributable to:			
Owners of the Company	213,895	15,951	229,846
Non-controlling interests	155,882	14,423	170,305
Basic earnings per share (HK cents)	17.36	1.84	19.20
Diluted earnings per share (HK cents)	17.28	1.83	19.11

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

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

Impact on the total equity as at 1 April 2015:

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

The adjustments have no material impact to the condensed consolidated statement of cash flows for the six months ended 30 September 2015.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.04 per ordinary share for the six months ended 30 September 2016 (2015: HK\$0.03 per ordinary share). The interim dividend is expected to be paid on or about Wednesday, 25 January 2017 to the shareholders whose names appear on the register of members on Tuesday, 20 December 2016.

## BUSINESS REVIEW

The Group's total revenue significant increased from HK\$1,898.4 million for the six months ended 30 September 2015 to HK\$3,020.0 million for the six months ended 30 September 2016, representing a significant increase of 59.1%. 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\$2,892.7 million, which represented approximately 95.8% of the total revenue. For the corresponding period under review, the total revenue attributable to the "Water" segment amounted to HK\$1,717.9 million, which represented approximately 90.5% of the total revenue only. This represented a strong growth of "Water" segment revenue of 68.4%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

### (i) *Water Supply Business Analysis*

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

For the period under review, the revenue from city water supply operation and construction amounted to HK\$2,644.8 million (2015: HK\$1,555.5 million), representing a significant increase of 70.0% 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\$917.2 million (2015: HK\$591.5 million), representing a significant increase of 55.1% 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 and Drainage Business Analysis**

Sewage treatment and drainage 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 business amounted to HK\$247.9 million (2015: HK\$162.4 million), representing a significant increase of 52.6% as compared with the last corresponding period. The sewage treatment and drainage segment profit (including sewage treatment and drainage operating and construction) amounted to HK\$79.7 million (2015: HK\$77.7 million), representing an increase of 2.6% as compared with the last corresponding 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\$10.4 million (2015: HK\$15.2 million). The total property business segment profit amounted to HK\$247.9 million (2015: HK\$61.5 million), representing a substantial increase of 303.1% as compared with the last corresponding period, which was mainly because of the increase in the fair value gain on investment properties by HK\$185.3 million (2015: fair value gain of HK\$62.3 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\$99.7 million (2015: HK\$123.9 million). The total concrete business segment profit amounted to HK\$4.9 million (2015: HK\$20.8 million), representing a significant decrease of 76.4% as compared with the last corresponding period.

For the period under review, the Group recorded a gain on share of results of associates in related to city water supply business in an amount of HK\$28.7 million (2015: HK\$10.9 million), representing a significant increase of 163.3% as compared with the last corresponding period. 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 of Hong Kong Limited (the "Stock Exchange") (stock code: 2349), in an amount of HK\$108.2 million (2015: HK\$37.6 million). For the corresponding period under review, the Group disposed of the entire interest of Jiu Rong Holdings Limited, whose ordinary shares are listed on the mainboard of the Stock Exchange (stock code: 2358), resulting in a gain of HK\$86.7 million.

### **PRIOR PERIOD ADJUSTMENTS**

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

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

In preparing the interim condensed consolidated financial statements for the six months ended 30 September 2016, the management has reassessed the accounting treatment of those service concession agreements.



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

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

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

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

The following adjustments are made:

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

As the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service, the water supply infrastructure should be classified as an intangible asset.

Consequently, the water supply infrastructures previously classified as property, plant and equipment was reclassified to other intangible assets in accordance with the policy set out for “Service concession arrangements” in note 4.13 and “Intangible assets (other than goodwill)” in note 4.9 in the annual financial statements for the year ended 31 March 2016. Besides, these intangible assets are amortised on a straight-line basis over the terms of remaining service concession periods.

### **2. Recognition of revenue and costs relating to construction or upgrade services in connection with water supply infrastructure**

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



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

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

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

In addition to the financial impact as disclosed in note 26 to the interim report, the Group's consolidated financial statements for the year ended 31 March 2016 have been restated retrospectively to reflect impact of these adjustments.

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

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

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

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

Impact on the consolidated statement of comprehensive income for the year ended 31 March 2015:

	<b>As previously reported</b> HK\$'000	<b>Prior period adjustments</b> HK\$'000	<b>As restated</b> HK\$'000
Revenue	2,858,624	763,485	3,622,109
Cost of sales	(1,506,140)	(542,844)	(2,048,984)
Income tax expense	(317,031)	(29,486)	(346,517)
Profit for the period	704,346	191,155	895,501
Other comprehensive income			
– Currency translation	(85,710)	(6,349)	(92,059)
Total comprehensive income for the year	620,584	184,806	805,390
Total comprehensive income for the year attributable to:			
Owners of the Company	327,064	157,538	484,602
Non-controlling interests	293,520	27,268	320,788
Basic earnings per share (HK cents)	26.17	11.44	37.61
Diluted earnings per share (HK cents)	<u>26.17</u>	<u>11.16</u>	<u>37.33</u>

Impact on the consolidated statement of financial position as at 31 March 2015:

	<b>As previously reported</b> HK\$'000	<b>Prior period adjustments</b> HK\$'000	<b>As restated</b> HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	5,995,282	(5,377,127)	618,155
Other intangible assets	175,729	6,350,391	6,526,120
Receivables under service concession arrangements (previously known as "amounts due from grantors for contract work")	–	349,401	349,401
<b>Current assets</b>			
Receivables under service concession arrangements (previously known as "amounts due from grantors for contract work")	364,149	(349,401)	14,748
Deferred tax liabilities	(241,389)	(196,699)	(438,088)
Equity attributable to owners of the Company	3,923,426	614,548	4,537,974
Non-controlling interests	<u>2,512,715</u>	<u>162,017</u>	<u>2,674,732</u>

The adjustments have no material impact to the consolidated statements of cash flows for the years ended 31 March 2015 and 2016.

## PROSPECTS

During the period under review, the Ministry of Finance issued the “Interim Measures for the Administration of Finance for Public-Private Partnership Projects”, which, by way of rules and regulations, further enhanced the transparency regarding the approval, operation and supervision of Public-Private Partnership (“PPP”) project operations in the public services sector and the predictability of project returns.

The ultimate solution to China’s water shortage problem hinges on how to attract private and foreign investment into the water supply chain that is capital deprived and how to improve the operational efficiency and service standard of the industry. In order to further attract private capital to participate in PPP projects, the Ministry of Finance also issued the “Circular on Further Promotion of the Public-Private Partnership Model in the Public Services Sector” which highlighted the future direction for public services sector, i.e. embracing diversified capital input and moving away from government only position in the past so as to implement reforms and achieve the objectives of supply-side structural adjustment in public services sector, expand effective supply and enhance the quality and efficiency of public services supply. The document in particular emphasizes that granting of PPP projects must be “fair, just and transparent” while “private sector investors and foreign investors should receive equal treatment and be treated on equal standard”. With the progress of marketization of water industry and the deepening of water price reform, a series of macroeconomic policies including the promulgation of “Water Ten Plan” and the “Interim Measures for the Pilot Reform of Water Resource Tax” jointly issued by Ministry of Finance, State Administration of Taxation and Ministry of Water Resources in May 2016, all marked the first step in deepening water reform. The change from water resources fee to water resource tax enables a more sound and comprehensive legal system covering water pricing and makes the cost of water supply more visible, this will greatly boost the confidence of private investors entering the public services sector, bolster the vitality and creativity of social capital, create internally generated driving force for economic growth, so as to promote sustainable and healthy economic development.

In the same period, in order to leverage on the traction and momentum generated from demonstration projects and encourage social capital participation, the Ministry of Finance, leading the other 20 departments, jointly issued the third batch of PPP project list which includes 516 projects and involved a total planned investment amounting to RMB1,170.8 billion. This initiative will play an active and demonstrative role in the development of Public-Private Partnership projects.

China’s water shortage has always been a constraint to the process of urbanization and sustainable economic development in China. With the goals of “deepening reform, improving people’s livelihood and achieving stable growth” set by the Central Government, the water industry is expected to achieve rapid development in a new round of booming phase of PPP construction projects.

2016 represents the onset of the Thirteenth Five-Year Plan. Benefitting from supportive and encouraging national policies, water industry is expected to enjoy prosperous prospect. Based on the steady development of the Company under the new circumstances and keeping pace with the directions of the national development policies, the Company is expected to continue its rapid development. Meanwhile, the Company will seize this historic opportunity to focus on and further its efforts in the development of its core businesses of water supply and sewage treatment, accelerating the disposal of non-core assets including land reserves, reducing its resources devoted to other non-core businesses, while deploying proceeds obtained from disposals to accelerate the mergers and acquisitions for its core business and speeding up its overall development. The Company will continue to strive for the provision of reliable and clean drinking water for the country and contribute to the country's sustainable and stable development, while continue to provide better returns for our shareholders.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2016, the Group has total cash and deposits balances of approximately HK\$2,573.7 million (31 March 2016: HK\$3,018.6 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 60.5% (31 March 2016: 57.7%) as at 30 September 2016. The current ratio is 1.20 times (31 March 2016: 1.25 times) as at 30 September 2016. 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 2016, 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 2016, 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 (Note (iii))
		Long position	Short position	
Mr. Duan Chuan Liang (Note (i))	Corporate and personal	399,120,301	–	26.68%
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	–	1.97%
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	–	0.45%

Notes:

- (i) These 399,120,301 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 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.
- (ii) The percentage of shareholding in the Company is calculated on the basis that all repurchased shares were cancelled as at 30 September 2016.

**(b) Underlying Shares**

Name of director	Capacity/Nature of interest	Number of Shares		Approximate percentage of shareholding in the Company (Note (ii))
		Long position (Note (i))	Short position	
Mr. Duan Chuan Liang	Personal	70,000,000	–	4.68%
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%

*Notes:*

- (i) 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.
- (ii) The percentage of shareholding in the Company is calculated on the basis that all repurchased shares were cancelled as at 30 September 2016.

## 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 2016
		At 1 April 2016	Granted during the period	Exercised during the period	
<b>Directors</b>					
Mr. Duan Chuan Liang	2015 (a)	35,000,000	–	–	35,000,000
	2015 (b)	35,000,000	–	–	35,000,000
Ms. Liu Yu Jie	2015 (c)	4,000,000	–	–	4,000,000
	2015 (d)	4,000,000	–	–	4,000,000
Mr. Li Zhong	2016 (a)	4,000,000	–	–	4,000,000
	2016 (b)	4,000,000	–	–	4,000,000
Ms. Ding Bin	2015 (c)	2,500,000	–	–	2,500,000
	2015 (d)	2,500,000	–	–	2,500,000
Mr. Zhao Hai Hu	2015 (c)	1,500,000	–	–	1,500,000
	2015 (d)	1,500,000	–	–	1,500,000
Mr. Zhou Wen Zhi	2015 (c)	500,000	–	–	500,000
	2015 (d)	500,000	–	–	500,000
Ms. Wang Xiaoqin	2015 (c)	1,000,000	–	–	1,000,000
	2015 (d)	1,000,000	–	–	1,000,000
		<u>97,000,000</u>	<u>–</u>	<u>–</u>	<u>97,000,000</u>
<b>Employees/Consultants</b>					
In aggregate	2015 (c)	22,750,000	–	–	22,750,000
	2015 (d)	22,750,000	–	–	22,750,000
		<u>45,500,000</u>	<u>–</u>	<u>–</u>	<u>45,500,000</u>
		<u>142,500,000</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 2016, 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 (Note (iii))		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang (Note (i))	Beneficial	399,120,301	-	-	26.68%	-	-
Asset Full Resources Limited (Note (ii))	Beneficial	218,044,301	-	-	14.58%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	19.46%	-	-

Notes:

- (i) Long positions in the underlying shares at 30 September 2016 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, an executive director and chairman of the Company.
- (iii) The percentage of shareholding in the Company is calculated on the basis that all repurchased shares were cancelled as at 30 September 2016.

Save as disclosed above, as at 30 September 2016, 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 2016, 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 2 September 2016 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 2016 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 2016 and subsequent to the reporting date and up to the date of this interim report, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

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

During the period ended 30 September 2016, the Company repurchased a total of 23,966,000 ordinary shares of HK\$0.01 each in the capital of the Company. 8,160,000 and 10,278,000 repurchased shares were cancelled in June 2016 and August 2016 respectively. 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 remaining 5,528,000 repurchased shares were not cancelled at 30 September 2016.

Subsequent to the reporting date and up to the date of this interim report, the Company repurchased a total of 1,652,000 ordinary shares of HK\$0.01 each in the capital of the Company. 7,180,000 repurchased shares were cancelled in November 2016. 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 Friday, 16 December 2016 to Tuesday, 20 December 2016 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 2016, 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 Thursday, 15 December 2016.

## AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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 2016 with the directors.

PricewaterhouseCoopers was appointed as auditor of the Company on the annual general meeting dated 2 September 2016.

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2016 have been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2400 (Revised), "Engagements to Review Historical Financial Statements" issued by the HKICPA.

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

Hong Kong, 30 November 2016

*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. Liu Dong, Mr. Chau Kam Wing, Mr. Ong King Keung and Mr. Siu Chi Ming.*