



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

Interim Report 2018/19



* For identification purposes only

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)

Ms. Ding Bin

Ms. Liu Yu Jie

Mr. Li Zhong

Non-executive

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi

Mr. Makoto Inoue

Ms. Wang Xiaoqin

Independent Non-executive

Mr. Chau Kam Wing

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping

AUDIT COMMITTEE

Mr. Chau Kam Wing

(*Chairman of committee*)

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping

REMUNERATION COMMITTEE

Mr. Chau Kam Wing

(*Chairman of committee*)

Mr. Ong King Keung

Mr. Siu Chi Ming

Ms. Ho Ping

NOMINATION COMMITTEE

Mr. Duan Chuan Liang

(*Chairman of committee*)

Mr. Chau Kam Wing

Mr. Siu Chi Ming

Ms. Ho Ping

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

LEGAL ADVISERS

As to Bermuda law

Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

China Construction Bank

Bank of Communications

China Merchants Bank

Asian Development Bank

Australia and New Zealand Banking

Group Limited

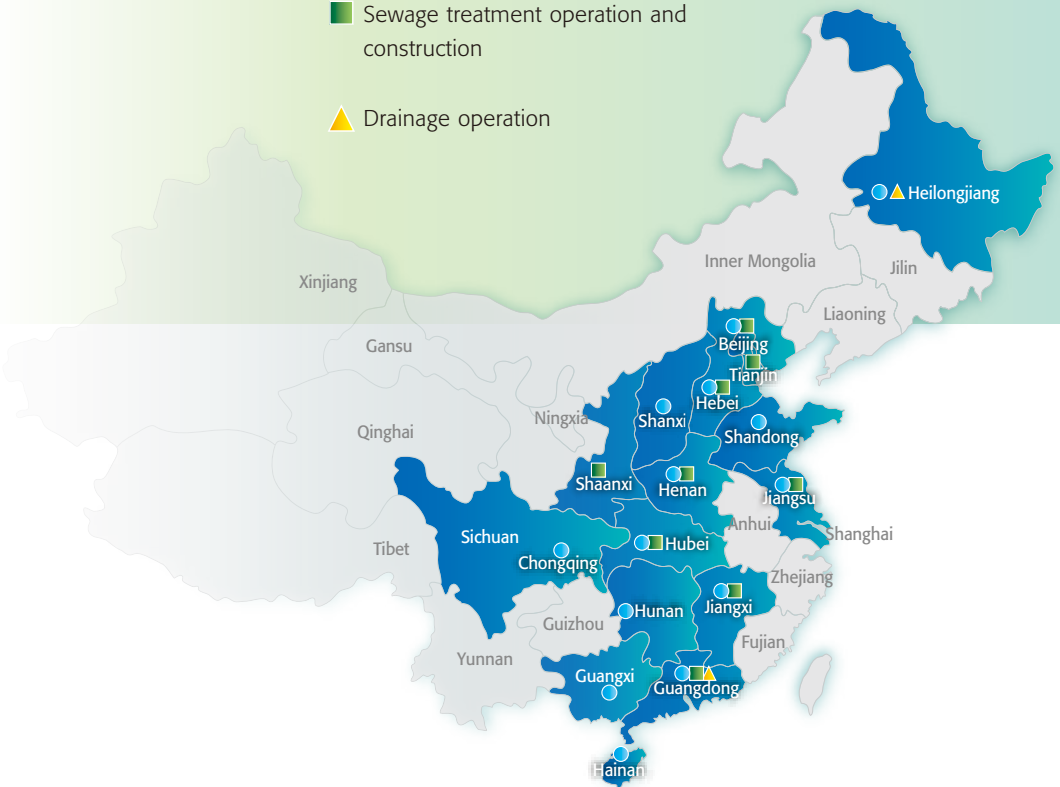
STOCK CODE

855

WEBSITE

www.chinawatergroup.com

- City water supply operation and construction
 - Connected users of approximately 4.4 million
 - Potential reaching population of approximately 22 million people
 - Water pipelines over 137,000 km
- Sewage treatment operation and construction
- ▲ Drainage operation



FINANCIAL HIGHLIGHTS

	Six months ended		Change
	30 September		
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000	
RESULTS HIGHLIGHTS			
Revenue	4,141,820	3,513,685	17.9%
Gross profit	1,820,156	1,535,888	18.5%
Profit for the period	985,783	857,603	14.9%
Profit for the period attributable to owners of the Company	645,810	537,015	20.3%
Basic earnings per share (HK cents)	40.14	34.93	14.9%
Diluted earnings per share (HK cents)	40.14	34.46	16.5%
Interim dividend (HK cents)	12	8	50.0%

	As at		Change
	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000	
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	32,318,868	28,589,287	13.0%
Total liabilities	20,932,770	17,434,878	20.1%
Net assets	11,386,098	11,154,409	2.1%
Net assets per share ¹	4.48	4.46	0.4%
Current ratio ²	1.07	1.04	
Gearing ratio ^{2, 3}	64.8%	61.0%	

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

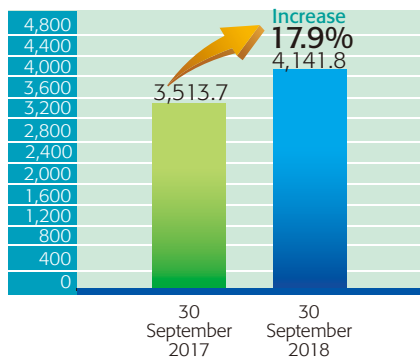
² Gearing ratio = $\frac{\text{Total liabilities}}{\text{Total assets}}$

³ The subscription monies for capital injection into Shenzhen Gold Tact Environmental Holdings Co. Ltd. (previously known as Gold Tact Environmental Investment (Shenzhen) Co. Ltd.), a wholly-owned subsidiary of the Group, amounting to approximately HK\$432,838,000 were received and were classified as liabilities of the Group as at 30 September 2018. Upon completion of the official capital injection procedure which is expected by end of year 2018, the gearing ratio and the current ratio would be improved to 63.4% and 1.12 times respectively.

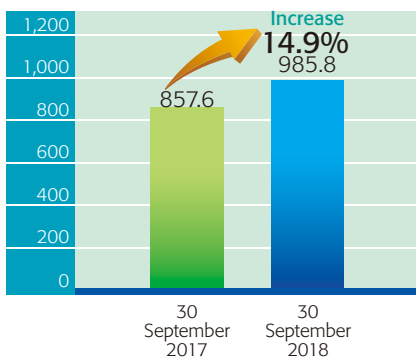
FINANCIAL HIGHLIGHTS

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

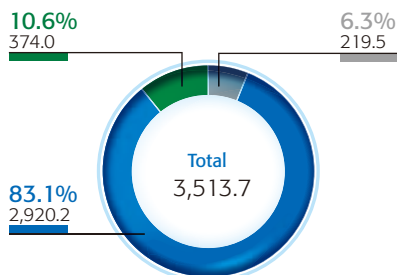
Total revenue (HK\$ million)



Total profit (HK\$ million)



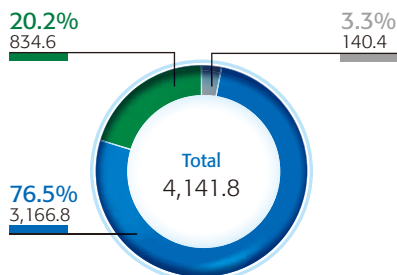
Total segment revenue (HK\$ million)



30 September 2017

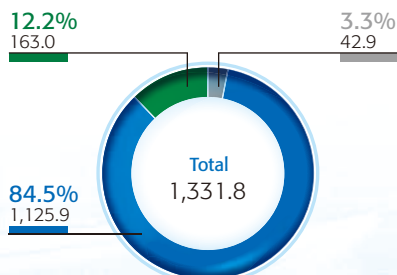
■ City water supply business ■ Environmental protection business ■ Others

Total segment revenue (HK\$ million)



30 September 2018

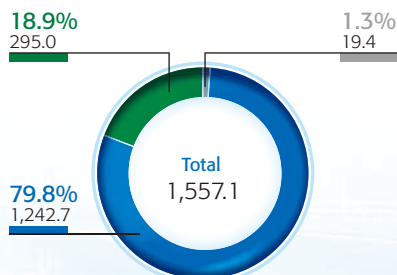
Total segment profit (HK\$ million)



30 September 2017

■ Water supply business ■ Environmental protection business ■ Others

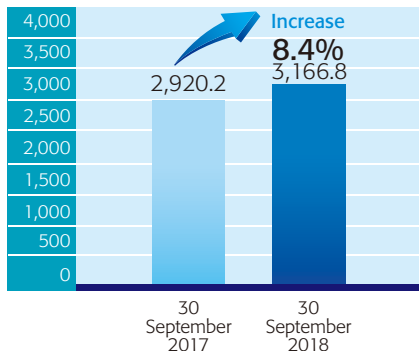
Total segment profit (HK\$ million)



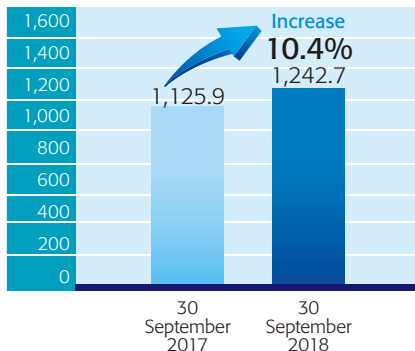
30 September 2018

1. Water Supply Business Analysis

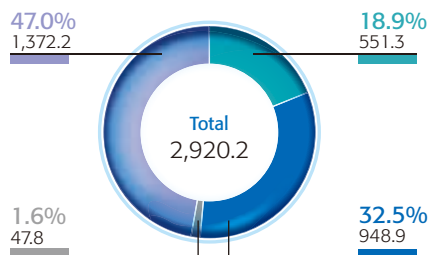
Revenue (HK\$ million)



Profit (HK\$ million)

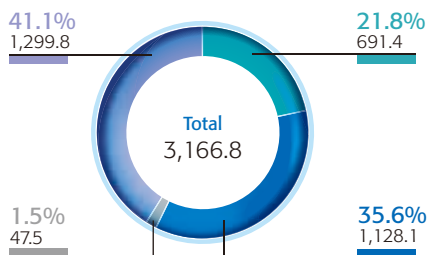


Revenue by nature (HK\$ million)



30 September 2017

Revenue by nature (HK\$ million)

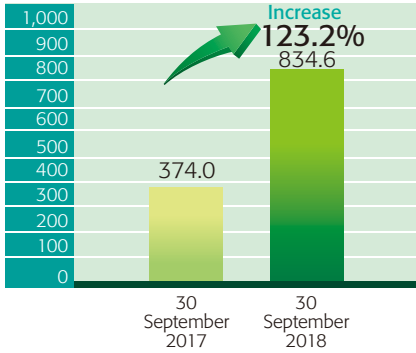


30 September 2018

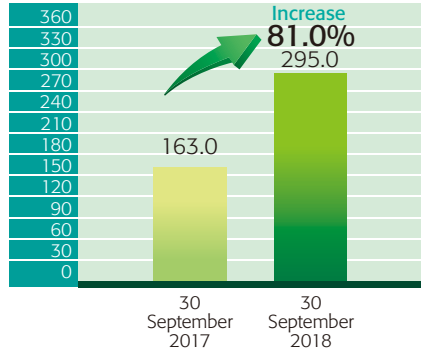
■ Water supply operation services ■ Water supply connection income ■ Water supply construction services ■ Others

2. Environmental Protection Business Analysis

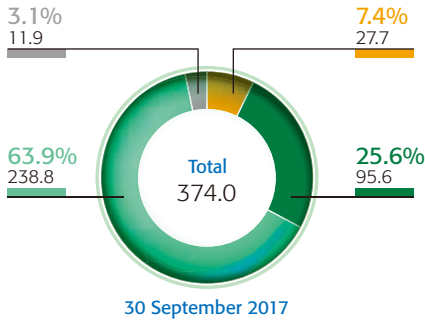
Revenue (HK\$ million)



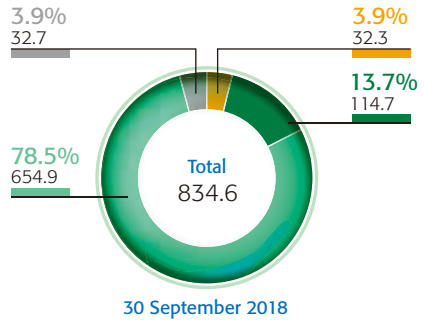
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



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

The board of directors (the “Board”) of China Water Affairs Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
	<i>Notes</i>	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Revenue	6	4,141,820	3,513,685
Cost of sales		(2,321,664)	(1,977,797)
Gross profit		1,820,156	1,535,888
Other income	6	103,674	157,888
Selling and distribution costs		(91,668)	(86,005)
Administrative expenses		(324,090)	(286,703)
Equity-settled share options expenses		–	(592)
Change in fair value of derivative financial assets		–	(26,283)
Gain on disposal of subsidiaries		6,071	23,020
Operating profit	8	1,514,143	1,317,213
Finance costs	9	(177,203)	(158,717)
Share of results of associates		30,387	29,073
Profit before income tax		1,367,327	1,187,569
Income tax expense	10	(381,544)	(329,966)
Profit for the period		985,783	857,603

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

		Six months ended 30 September	
		2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Notes			
Profit for the period attributable to:			
	Owners of the Company	645,810	537,015
	Non-controlling interests	339,973	320,588
		<u>985,783</u>	<u>857,603</u>
Earnings per share for profit attributable to owners of the Company during the period			
	11	HK cents	HK cents
	Basic	<u>40.14</u>	<u>34.93</u>
	Diluted	<u>40.14</u>	<u>34.46</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Profit for the period	985,783	857,603
Other comprehensive income		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Change in fair value of financial assets at fair value through other comprehensive income/ available-for-sale financial assets	–	(13,749)
– Currency translation	(458,039)	241,489
– Recycling of currency translation differences upon disposal of subsidiaries	(5,363)	5,056
– Recycling of reserves upon disposal of available-for-sale financial assets	–	(9,787)
Other comprehensive (loss)/income for the period, net of tax	(463,402)	223,009
Total comprehensive income for the period	522,381	1,080,612
Total comprehensive income attributable to:		
Owners of the Company	313,226	676,021
Non-controlling interests	209,155	404,591
	522,381	1,080,612

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Notes			
ASSETS AND LIABILITIES			
Non-current assets			
	Property, plant and equipment	13 1,706,476	1,695,029
	Prepaid land lease payments	13 862,525	838,359
	Investment properties	882,539	909,310
	Interests in associates	670,570	661,279
	Financial assets at fair value through other comprehensive income	275,524	–
	Available-for-sale financial assets	–	162,747
	Goodwill	983,768	817,161
	Other intangible assets	13 13,701,093	12,681,425
	Prepayments, deposits and other receivables	15 867,401	712,787
	Receivables under service concession arrangements	1,247,652	1,103,229
		21,197,548	19,581,326
Current assets			
	Properties under development	1,092,125	1,370,202
	Properties held for sale	831,106	597,341
	Inventories	477,731	347,638
	Trade and bills receivables	14 1,564,362	1,055,014
	Receivables under service concession arrangements	38,041	42,979
	Financial assets at fair value through profit or loss	500,561	397,159
	Due from non-controlling equity holders of subsidiaries	222,858	260,479
	Due from associates	347,523	562,961
	Prepayments, deposits and other receivables	15 1,603,794	1,293,184
	Pledged deposits	635,341	569,614
	Cash and cash equivalents	3,807,878	2,511,390
		11,121,320	9,007,961

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
	Notes		
Current liabilities			
Trade and bills payables	16	2,357,773	1,625,896
Accrued liabilities, deposits received and other payables	17	3,091,504	2,306,224
Due to associates		54,228	29,489
Borrowings	18	3,457,068	3,450,300
Due to non-controlling equity holders of subsidiaries		259,492	230,417
Provision for tax		1,135,444	1,006,826
		<u>10,355,509</u>	<u>8,649,152</u>
Net current assets		<u>765,811</u>	<u>358,809</u>
Total assets less current liabilities		<u>21,963,359</u>	<u>19,940,135</u>
Non-current liabilities			
Borrowings	18	9,285,352	7,431,752
Deposits received	17	233,352	246,633
Due to associates		742	1,201
Due to non-controlling equity holders of subsidiaries		32,941	77,296
Deferred government grants		148,728	156,336
Deferred tax liabilities		876,146	872,508
		<u>10,577,261</u>	<u>8,785,726</u>
Net assets		<u>11,386,098</u>	<u>11,154,409</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
<i>Notes</i>			
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	16,089	16,089
Reserves		7,197,836	7,152,495
		7,213,925	7,168,584
Non-controlling interests		4,172,173	3,985,825
Total equity		11,386,098	11,154,409

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Net cash inflow from operating activities	1,019,600	702,571
Net cash outflow from investing activities	(1,625,979)	(1,672,414)
Net cash inflow/(outflow) from financing activities	1,880,367	(793,310)
Increase/(Decrease) in cash and cash equivalents	1,273,988	(1,763,153)
Cash and cash equivalents at beginning of period	2,511,390	4,313,977
Effect of foreign exchange rates, net	22,500	18,347
Cash and cash equivalents at end of period	<u>3,807,878</u>	<u>2,569,171</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>3,807,878</u>	<u>2,569,171</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company											Non-controlling interests	Total equity	
	Share capital	Proposed dividend	Share premium account	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Financial assets at fair value through other comprehensive income revaluation reserve/ Available-for-sale financial assets	Statutory reserves	Retained earnings			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2018 (as previously reported)	16,089	241,335	995,193	3,064	117,217	353,809	96,808	(326,786)	-	354,751	5,317,104	7,168,584	3,985,825	11,154,409
Effect on adoption of HKFRS 9 (note 2)	-	-	-	-	-	-	-	-	48,617	-	-	48,617	-	48,617
At 1 April 2018 (as restated)	16,089	241,335	995,193	3,064	117,217	353,809	96,808	(326,786)	48,617	354,751	5,317,104	7,217,201	3,985,825	11,203,026
Share premium reduction arising from acquisition of subsidiaries	-	-	(995,193)	-	995,193	-	-	-	-	-	-	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	124,101	124,101
Disposal of subsidiaries	-	-	-	-	-	-	-	(75,167)	-	-	-	(75,167)	(16,110)	(91,277)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	66,335	66,335
Final dividend approved	-	(241,335)	-	-	-	-	-	-	-	-	-	(241,335)	-	(241,335)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(81,119)	(81,119)
Transactions with owners	-	(241,335)	(995,193)	-	995,193	-	-	(75,167)	-	-	-	(316,502)	(22,807)	(339,309)
Proposed interim dividend	-	193,068	-	-	(193,068)	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	645,810	645,810	339,973	985,783
Other comprehensive income – Currency translation	-	-	-	-	-	(327,221)	-	-	-	-	-	(327,221)	(130,818)	(458,039)
– Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	(5,363)	-	-	-	-	-	(5,363)	-	(5,363)
Total comprehensive income/ (loss) for the period	-	-	-	-	-	(332,584)	-	-	-	-	645,810	313,226	209,155	522,381
Balance at 30 September 2018 (unaudited)	16,089	193,068	-	3,064	919,342	21,225	96,808	(401,953)	48,617	354,751	5,962,914	7,213,925	4,172,173	11,386,098

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

Notes:

1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2018 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 2018, 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 2018 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 2018.

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

		Effective for accounting periods beginning on or after
Annual Improvements Project	Annual Improvements 2014-2016 Cycle	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendments)	Classifications to HKFRS 15	1 January 2018
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

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

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

3. Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 “Financial instruments” (“HKFRS 9”) and HKFRS 15 “Revenue from contracts with customers” (“HKFRS 15”) on the Group’s financial information and the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior periods.

HKFRS 9 and HKFRS 15 were generally adopted by the Group by the modified retrospective approach without restating comparative information. As a result of the changes in the Group’s accounting policies, certain reclassifications and adjustments are reflected in the condensed consolidated statement of financial position on 1 April 2018.

The following table show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by respective standard below.

Condensed consolidated statement of financial position (extract)	31 March 2018 As originally presented HK\$'000	HKFRS 9 HK\$'000	HKFRS 15 HK\$'000	1 April 2018 Restated HK\$'000
Non-current assets				
Financial assets at fair value through other comprehensive income	–	211,364	–	211,364
Available-for-sale financial assets	162,747	(162,747)	–	–
Total assets	162,747	48,617	–	211,364
Current liabilities				
Accrued liabilities, deposits received and other payables – Deposits received	545,116	–	(545,116)	–
Accrued liabilities, deposits received and other payables – Contract liabilities	–	–	545,116	545,116
Total liabilities	545,116	–	–	545,116
Equity				
Financial assets at fair value through other comprehensive income revaluation reserve	–	48,617	–	48,617

4. Estimates

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

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

5. Financial risk management and fair value measurements

5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2018.

There have been no changes in the risk management policies since year ended 31 March 2018.

5.2 Fair value estimation

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

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

The following table presents the Group's financial assets that are measured at fair value at 30 September 2018:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income	-	-	275,524	275,524
Financial assets at fair value through profit or loss	<u>561</u>	<u>-</u>	<u>500,000</u>	<u>500,561</u>
Net fair values (unaudited)	<u><u>561</u></u>	<u><u>-</u></u>	<u><u>775,524</u></u>	<u><u>776,085</u></u>

The following table presents the Group's financial assets that are measured at fair value at 31 March 2018:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through profit or loss (audited)	<u>817</u>	<u>-</u>	<u>396,342</u>	<u>397,159</u>

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

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

5.3 Information about Level 3 fair value measurement

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

Financial assets at fair value through profit or loss comprise financial products with licensed banks in the PRC with annualised interest rate of 3%-4%. The Group used income method of discounted cash flows to determine its fair value.

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

	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Financial assets at fair value through other comprehensive income:		
Opening balance	–	–
Transfer from available-for-sale financial assets	162,747	–
Transfer from investment in a subsidiary	65,786	–
Changes in fair value recognised in other comprehensive income	48,617	–
Acquisition of subsidiaries	4,118	–
Exchange realignment	(5,744)	–
Ending balance	275,524	–
Financial assets at fair value through profit or loss:		
Opening balance	396,342	224,138
Net purchase of financial assets at fair value through profit or loss	103,658	172,204
Ending balance	500,000	396,342

6. Revenue and other income

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

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Revenue:		
Water supply operation services	1,128,073	948,930
Water supply connection income	691,441	551,329
Water supply construction services	1,299,785	1,372,243
Sewage treatment and drainage operation services	147,016	123,330
Sewage treatment and water environmental renovation construction services	654,875	238,762
Sales of properties	73,399	163,831
Sales of goods	7,077	17,523
Hotel and rental income	47,163	31,967
Finance income	12,987	11,368
Handling income	11,438	10,389
Others	68,566	44,013
Total	<u>4,141,820</u>	<u>3,513,685</u>
Other income:		
Interest income	41,787	71,321
Government grants and subsidies*	26,307	55,456
Amortisation of deferred government grants	2,174	2,174
Gain on disposal of prepaid land lease payments	–	4,019
Dividend income from financial assets	8,833	8,494
Miscellaneous income	24,573	16,424
Total	<u>103,674</u>	<u>157,888</u>

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

7. Segment information

The Group has identified the following reportable segments:

- (i) "City water supply operation and construction" involves the provision of water supply operation and construction services;
- (ii) "Environmental protection" is used to replace "Sewage treatment and drainage operation and construction" in the segment reporting of this period to conform with the Group's business development to seek a separate listing of the Group's environmental protection business on a recognised stock exchange. "Environmental protection" involves the provision of sewage treatment and drainage operation and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management; and
- (iii) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

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

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

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

Unallocated corporate income mainly comprises interest income and dividend income from financial assets.

Unallocated corporate expenses mainly comprises salaries and wages, operating leases and other operating expenses of the Company and the investment holding companies.

For the period ended 30 September 2018

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

For the period ended 30 September 2017

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

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

8. Operating profit

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Depreciation	25,804	24,996
Amortisation of prepaid land lease payments	10,601	9,819
Amortisation of other intangible assets	198,248	162,347

9. Finance costs

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Interest on bank loans	192,690	144,556
Interest on other loans	110,048	115,061
Total borrowing costs	302,738	259,617
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(125,535)	(100,900)
	177,203	158,717

10. Income tax expense

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2017: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Current income tax:		
– the PRC (<i>Note</i>)	344,652	287,606
Deferred tax	36,892	42,360
Total income tax expense	381,544	329,966

Note: The provision for PRC current income tax is based on a statutory income tax rate of 25% (2017: 25%) of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

Certain subsidiaries operating in the PRC enjoy a preferential income tax rate of 15% (2017: 15%) of their assessable income.

11. Earnings per share for profit attributable to owners of the Company

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of HK\$645,810,000 (2017: HK\$537,015,000) and the weighted average of 1,608,900,859 (2017: 1,537,599,506) ordinary shares in issue during the period.

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

In the calculation of the diluted earnings per share attributable to the owners of the Company for the period ended 30 September 2017, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$537,015,000 and on the weighted average of 1,558,520,292 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,537,599,506 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 20,920,786.

12. Dividends

Dividends attributable to the interim period:

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Interim dividend		
– HK\$0.12 (2017: HK\$0.08) per ordinary share	<u>193,068</u>	<u>127,512</u>

The interim dividend proposed after the reporting date for the financial period ended 30 September 2018 and 2017 were not recognised as a liability at the reporting date.

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

During the six months ended 30 September 2018, the addition in property, plant and equipment amounted to HK\$99,340,000 (31 March 2018: HK\$199,623,000); prepaid land lease payments amounted to HK\$10,252,000 (31 March 2018: HK\$86,362,000); and other intangible assets amounted to HK\$1,279,562,000 (31 March 2018: HK\$2,799,550,000).

14. Trade and bills receivables

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

	As at	
	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
0 to 90 days	946,807	525,625
91 to 180 days	168,318	129,376
Over 180 days	449,237	400,013
	<u>1,564,362</u>	<u>1,055,014</u>

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

15. Prepayments, deposits and other receivables

		As at	
		30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
		<i>Notes</i>	
Non-current			
Deposits for acquisition of equity securities		11,764	9,512
Other deposits		1,018	958
		12,782	10,470
Prepayments and other receivables	(i)	854,619	702,317
		867,401	712,787
Current			
Prepayments		216,582	144,234
Deposits		154,765	–
Other receivables	(ii)	1,232,447	1,148,950
		1,603,794	1,293,184

Notes:

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

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

16. Trade and bills payables

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

	As at	
	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
0 to 90 days	1,467,003	1,084,886
91 to 180 days	435,528	194,876
Over 180 days	455,242	346,134
	<u>2,357,773</u>	<u>1,625,896</u>

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

As at 30 September 2018, the bills payables of HK\$218,853,000 (31 March 2018: HK\$54,618,000) were secured by the pledged bank deposits of HK\$107,871,000 (31 March 2018: HK\$17,510,000).

17. Accrued liabilities, deposits received and other payables

		As at	
	<i>Notes</i>	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Non-current			
Deposits received		<u>233,352</u>	<u>246,633</u>
Current			
Accrued liabilities		363,955	328,248
Contract liabilities	(i)	534,109	–
Deposits received	(ii)	510,809	606,797
Other payables	(iii)	<u>1,682,631</u>	<u>1,371,179</u>
		<u>3,091,504</u>	<u>2,306,224</u>

Notes:

- (i) Contract liabilities mainly included the followings:

As at 30 September 2018

- (a) Deposits from customers of HK\$525,468,000 in respect of the Group's city water supply operation and construction businesses.
- (b) Deposits from customers of HK\$2,788,000 in respect of the Group's property development and investment businesses.
- (ii) Deposits received mainly included the followings:

As at 30 September 2018

- (a) The subscription monies for capital injection into Shenzhen Gold Tact Environmental Holdings Co. Ltd. (previously known as Gold Tact Environmental Investment (Shenzhen) Co. Ltd.), a wholly-owned subsidiary of the Group, amounting to approximately HK\$432,838,000 were received.
- (b) Deposits received of HK\$20,329,000 in respect of the proposed disposal of equity securities held by the Group

As at 31 March 2018

- (a) Deposits from customers of HK\$503,925,000 in respect of the Group's city water supply operation and construction businesses.
- (b) Deposits from customers of HK\$37,747,000 in respect of the Group's property development and investment businesses.
- (iii) Other payables mainly included water supply and sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$378,586,000 (31 March 2018: HK\$358,301,000), payables for other PRC tax surcharges and construction costs, and payables for the Company's final dividend of HK\$241,335,000 (31 March 2018: HK\$ Nil).

18. Borrowings

		As at	
		30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Original currency			
Current			
Bank loans – unsecured	RMB	738,271	598,811
Bank loans – secured	RMB	1,036,647	1,050,549
Bank loans – unsecured	USD	1,054,892	1,105,160
Other loans – unsecured	RMB	57,588	135,695
Other loans – secured	RMB	457,394	454,615
Other loans – secured	USD	62,400	62,400
Government loans – unsecured	RMB	49,876	43,070
		3,457,068	3,450,300
Non-current			
Bank loans – unsecured	RMB	794,772	615,344
Bank loans – secured	RMB	1,735,935	1,511,451
Bank loans – unsecured	USD	3,696,231	2,351,912
Other loans – unsecured	RMB	343,964	976
Other loans – unsecured	USD	2,282,095	2,275,651
Other loans – secured	RMB	224,959	496,604
Other loans – secured	USD	89,630	119,894
Government loans – unsecured	RMB	117,766	59,920
		9,285,352	7,431,752
		12,742,420	10,882,052

19. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2018 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over shares of certain subsidiaries of the Group;
- (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2018 was HK\$735,847,000 (31 March 2018: HK\$674,448,000);
- (d) charges over prepaid land lease payments in which their aggregate carrying amount as at 30 September 2018 was HK\$327,496,000 (31 March 2018: HK\$358,110,000);
- (e) charges over investment properties in which their aggregate carrying amount as at 30 September 2018 was HK\$315,176,000 (31 March 2018: HK\$446,220,000);
- (f) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2018 was HK\$777,090,000 (31 March 2018: HK\$849,289,000);
- (g) charges over the properties under development in which their aggregate carrying amount as at 30 September 2018 was HK\$17,647,000 (31 March 2018: HK\$63,435,000);
- (h) charges over the properties held for sale in which their aggregate carrying amount as at 30 September 2018 was HK\$Nil (31 March 2018: HK\$5,102,000);
- (i) charges over the financial assets at fair value through other comprehensive income and available-for-sale financial assets in which their aggregate carrying amounts as at 30 September 2018 were HK\$175,294,000 and HK\$Nil respectively (31 March 2018: HK\$Nil and HK\$131,311,000); and
- (j) charges over the Group's bank deposits in amount of HK\$635,341,000 as at 30 September 2018 (31 March 2018: HK\$569,614,000).

20. Share capital

	<i>Notes</i>	Number of shares '000	Par value HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each			
At 30 September 2018 and 31 March 2018		<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each			
At 31 March 2017 (audited)		1,517,051	15,171
Repurchased and cancelled	(i)	(23,850)	(239)
Share option exercised	(ii)	<u>115,700</u>	<u>1,157</u>
At 31 March 2018 (audited) and at 30 September 2018 (unaudited)		<u>1,608,901</u>	<u>16,089</u>

Notes:

- (i) During the year ended 31 March 2018, the Company repurchased a total of 23,850,000 ordinary shares of the Company at an aggregate cost of approximately HK\$110,286,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$5.25 and HK\$4.19 per share respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.
- (ii) During the year ended 31 March 2018, the subscription rights attaching to 47,700,000 and 68,000,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$3.50 and HK\$3.60 per share respectively, resulting in the issue of aggregate of 115,700,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$411,750,000. The premium received was credited to the share premium account.

21. Related party transactions

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

Compensation of key management personnel of the Group:

	Six months ended 30 September	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	35,428	34,098
– Retirement scheme contribution	349	288
– Equity-settled share options expenses	–	592
	<u>35,777</u>	<u>34,978</u>

22. Commitments and guarantees

(i) Capital commitments

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

	As at	
	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Contracted, but not provided for		
– Other intangible assets	335,766	220,567
– Property, plant and equipment	30,411	22,232
	366,177	242,799

(ii) Operating lease arrangement

As lessee

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

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

	As at	
	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Within one year	38,219	37,020
In the second to fifth years, inclusive	131,006	139,634
After five years	190,312	211,358
	359,537	388,012

As lessor

The Group leases its investment properties under operating lease arrangements for terms ranging from one to ten years. Certain leases contain an option to renew the lease and renegotiate the terms at the expiry dates or at dates mutually agreed between the Group and the lessees. None of the leases include contingent rentals.

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

	As at	
	30 September 2018 (unaudited) HK\$'000	31 March 2018 (audited) HK\$'000
Within one year	31,670	33,105
In the second to fifth years, inclusive	46,181	54,945
After five years	–	701
	<u>77,851</u>	<u>88,751</u>

- (iii) As at 30 September 2018, the Group had given guarantees to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$2,020,000 (31 March 2018: HK\$2,623,000).

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

23. Contingent liabilities

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

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.12 per ordinary share (2017: HK\$0.08 per ordinary share) for the six months ended 30 September 2018. The interim dividend is expected to be paid on or about Friday, 1 February 2019 to the shareholders whose names appear on the register of members on Wednesday, 19 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 December 2018 to Wednesday, 19 December 2018 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 2018, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 14 December 2018.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$3,513.7 million for the six months ended 30 September 2017 to HK\$4,141.8 million for the six months ended 30 September 2018, representing a steady increase of 17.9%. The Group continued its strategy to focus on core business. For the period under review, the Group recorded a steady growth in its "City water supply operation and construction" and "Environment protection" segments. The total revenue attributable to the "City water supply operation and construction" and "Environment protection" segments increased from HK\$3,294.2 million to HK\$4,001.4 million. This represented a steady and continuous growth of segments revenue by 21.5%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

(i) Water Supply Business Analysis

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

For the period under review, the revenue from city water supply operation and construction segment amounted to HK\$3,166.8 million (2017: HK\$2,920.2 million), representing a steady increase of 8.4% as compared with the last corresponding period. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,242.7 million (2017: HK\$1,125.9 million), representing a steady increase of 10.4% as compared with the last corresponding period. This was mainly because of increase in volume of water sold, procurement of more construction and connection work driven by the continuation of urban-rural integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the new water projects during the period.

(ii) Environmental Protection Business Analysis

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

For the period under review, the revenue from environmental protection segment amounted to HK\$834.6 million (2017: HK\$374.0 million), representing a significant increase of 123.2% as compared with the last corresponding period. The environmental protection segment profit (including sewage treatment and drainage operating and construction, solid waste and hazardous waste business, environmental sanitation and water environment management) amounted to HK\$295.0 million (2017: HK\$163.0 million), representing a significant increase of 81.0% as compared with the last corresponding period. This was mainly because of upgrade of facilities for higher operating standard and procurement of more construction services in current period.

(iii) Property Business Analysis

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

For the period under review, the revenue from the property business segment amounted to HK\$91.7 million (2017: HK\$178.6 million). The total property business segment profit amounted to HK\$17.2 million (2017: HK\$36.8 million), representing a decrease of 53.3% as compared with the last corresponding period. This was mainly due to the decrease in sales of property projects in current period.

For the period under review, the Group recorded a gain on disposal of subsidiaries amounted to HK\$6.1 million, which was mainly because of the disposal of 55% equity interest in 江西仙女湖旅游股份有限公司. For the corresponding period under review, the Group disposed of the entire interest in 長沙意峰房地產開發有限公司 and recorded a gain on disposal of a subsidiary amounted to HK\$23.0 million.

The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing its core businesses in China.

PROSPECTS

China's economy has been evolving from the rapid growing stage to the quality development stage. The country needs to increase its investment in infrastructure, while the local governments and state-owned enterprises are in the process of deleveraging. In the meanwhile, the State Council issued the Circular No.101 (2018) from the General Office of the State Council the "Guiding Opinion on Maintaining the Efforts to Shore Up Weak Links in Infrastructure (關於保持基礎設施領域補短板力度的指導意見)" in late October, which encourages and motivates public funds, especially the private capitals to invest in the major projects of weak links improvement, as well as increasing the financial support to revitalise idle financial assets of various level of governments. The circular also encourages the implementation of structural reform of supply side, full exertion of the decisive effect of market resources allocation, coordination of balanced development of urban and rural areas, and gradual implementation of popularisation of basic public services. During the period, the National Development and Reform Commission of China also issued the "Opinion on Innovating and Improving the Pricing System for the Promotion of Green Development (關於創新和完善促進綠色發展價格機制的意見)", which encourages the improvement of pricing system of resource environment by the mean of marketisation.

Such measures of the government are intended to create an optimal investment environment for market entities, and it is anticipated that private capitals shall be supported to materialise a healthy development in the area of infrastructure. The Group will fully capture the developing direction and market opportunities of the water industry in the PRC, and continuously adhering to the transfer, ownership and operation (TOO) expansion model. While accelerating the pace of merger and acquisition, we will also enhance the cooperation with the local governments to improve the water supply service quality and standard and provide comprehensive and professional water services to our customers.

Looking ahead, the Group will continuously uphold its business vision of “Water-Oriented, Kindness to Society”, and with the benefit of the Group’s professional management for over a decade, we strive to accelerate the pace of merger and acquisition as well as its own development, optimise its business planning, enhancing synergies, and promote the development of urban-rural water supply integration and supply-drainage integration businesses. We shall also develop the markets for value-added businesses of secondary water supply and direct drinking water, improve gradually the Group’s profitability, create new profit growth opportunities and comprehensively improve the Group’s service level and core competitiveness, so as to create better returns for shareholders and contribute to the reform and development of the Chinese water market.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2018, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$4,443.2 million (31 March 2018: HK\$3,081.0 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 64.8% (31 March 2018: 61.0%) as at 30 September 2018. The current ratio is 1.07 times (31 March 2018: 1.04 times) as at 30 September 2018.

The subscription monies for capital injection into Shenzhen Gold Tact Environmental Holdings Co. Ltd. (previously known as Gold Tact Environmental Investment (Shenzhen) Co. Ltd.), a wholly-owned subsidiary of the Group, amounting to approximately HK\$432,838,000 were received and were classified as liabilities of the Group as at 30 September 2018. Upon completion of the official capital injection procedure which is expected by end of year 2018, the gearing ratio and the current ratio would be improved to 63.4% and 1.12 times respectively.

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 2018, the Group has employed approximately 8,000 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 2018, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Shares

Name of director	Capacity/Nature of interest	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note (i))	Corporate and personal	469,120,301	–	29.16%
Ms. Ding Bin	Personal	5,500,000	–	0.34%
Ms. Liu Yu Jie	Personal	11,354,000	–	0.71%
Mr. Li Zhong (Note (ii))	Personal	37,527,457	–	2.33%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.27%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.05%
Ms. Wang Xiaoqin	Personal	8,660,000	–	0.54%
Ms. Ho Ping	Personal	978,000	–	0.06%

Notes:

- (i) These 469,120,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 251,076,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) These 37,527,457 shares consist of 8,320,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.

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 2018, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholder	Capacity/Nature of interest	Number of shares			Approximate percentage of shareholding in the Company		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	469,120,301	-	-	29.16%	-	-
Asset Full Resources Limited							
(Note)	Beneficial	218,044,301	-	-	13.55%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	18.10%	-	-

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

Save as disclosed above, as at 30 September 2018, 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 2018, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

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

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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 7 September 2018 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 2018 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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2018.

AUDIT COMMITTEE

The Audit Committee which comprises the four independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2018 with the directors.

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

Hong Kong, 29 November 2018

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