



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855



Interim Report 2020/21

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Ms. Ding Bin
Ms. Liu Yu Jie
Mr. Li Zhong
Mr. Duan Jerry Linnan

Non-executive

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

Independent Non-executive

Mr. Chau Kam Wing
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan
Mr. Chan Wai Cheung Admiral

AUDIT COMMITTEE

Mr. Chau Kam Wing
(*Chairman of committee*)
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan
Mr. Chan Wai Cheung Admiral

REMUNERATION COMMITTEE

Mr. Chau Kam Wing
(*Chairman of committee*)
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan
Mr. Chan Wai Cheung Admiral

NOMINATION COMMITTEE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

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

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

Water supply business

- City water supply operation and construction
 - Connected users of approximately 6 million
 - Potential reaching population over 30 million people
 - Water pipelines over 150,000 km

Environmental protection business

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

- ▲ Drainage operation



FINANCIAL HIGHLIGHTS

	Six months ended 30 September		Change
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000	
RESULTS HIGHLIGHTS			
Revenue	5,131,231	4,354,710	17.8%
Gross profit	2,110,482	1,862,265	13.3%
Profit for the period	1,267,490	1,283,968	-1.3%
Adjusted profit for the period attributable to owners of the Company ¹	866,757	666,305	30.1%
Adjusted basic earnings per share (HK cents) ²	54.20	41.46	30.7%
Adjusted diluted earnings per share (HK cents) ³	53.02	41.46	27.9%
Interim dividend (HK cents)	15	14	7.1%

	As at		Change
	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000	
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	44,758,384	41,902,953	6.8%
Total liabilities	29,728,870	27,804,450	6.9%
Net assets	15,029,514	14,098,503	6.6%
Net assets per share ⁴	5.86	5.30	10.6%
Current ratio	1.06	1.08	
Gearing ratio ⁵	66.4%	66.4%	

- ¹ Profit for the period attributable to owners of the Company was HK\$826,479,000, representing a slight decrease of 6.2% from HK\$881,080,000 in last corresponding period. The slight decrease was mainly attributable to (i) the decrease in the one-off contribution amounting to HK\$214,775,000 arising from the acquisition of interests in Kangda International Environmental Company Limited (“Kangda International”) in the last corresponding period; and (ii) inclusion of the one-off deemed loss on disposal of HK\$40,278,000 arising from the exercise of share options of Kangda International by the share options holder in this period (the “One-Off Events”). Excluding the effect of the One-Off Events, there was an increase of 30.1% from HK\$666,305,000 to HK\$866,757,000 in this period.
- ² Basic earnings per share for the period was HK51.68 cents, representing a slight decrease of 5.7% from HK54.83 cents in last corresponding period. The slight decrease was mainly attributable to the One-Off Events. Excluding the effect of the One-Off Events, there was an increase of 30.7% from HK41.46 cents to HK54.20 cents in this period.
- ³ Diluted earnings per share for the period was HK50.56 cents, representing a slight decrease of 7.8% from HK54.83 cents in last corresponding period. The slight decrease was mainly attributable to the One-Off Events. Excluding the effect of the One-Off Events, there was an increase of 27.9% from HK41.46 cents to HK53.02 cents in this period.

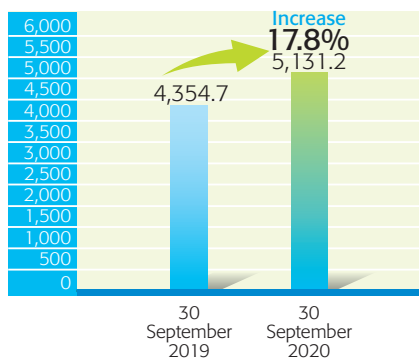
⁴ Net assets per share =
$$\frac{\text{Equity attributable to owners of the Company}}{\text{Number of issued shares at period/year end}}$$

⁵ Gearing ratio =
$$\frac{\text{Total liabilities}}{\text{Total assets}}$$

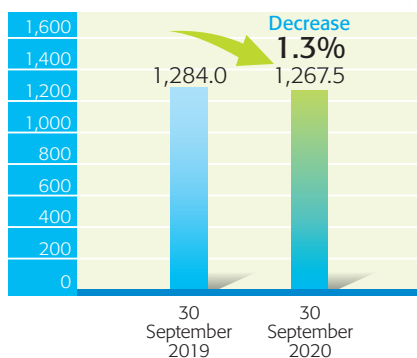
FINANCIAL HIGHLIGHTS

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

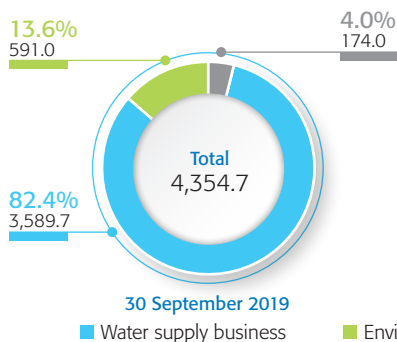
Total revenue (HK\$ million)



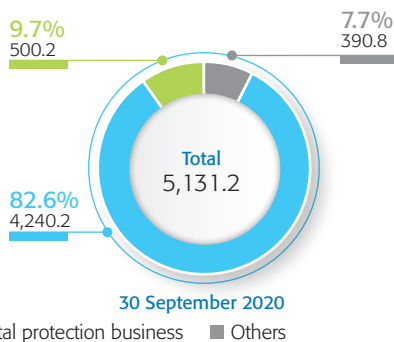
Total profit (HK\$ million)



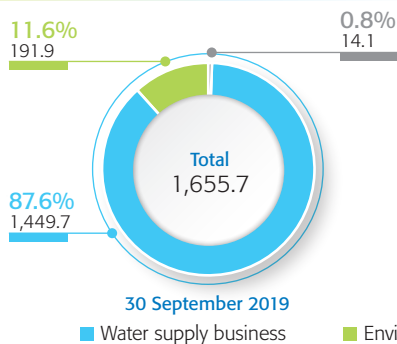
Total segment revenue (HK\$ million)



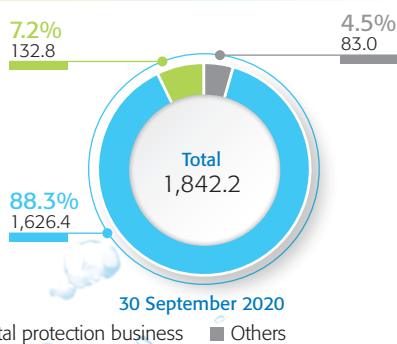
Total segment revenue (HK\$ million)



Total segment profit (HK\$ million)

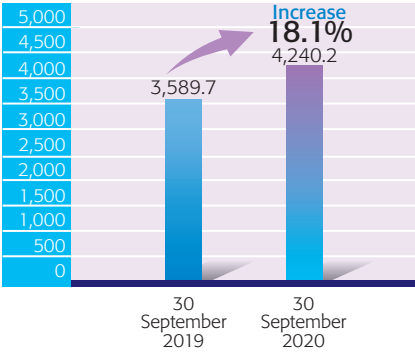


Total segment profit (HK\$ million)

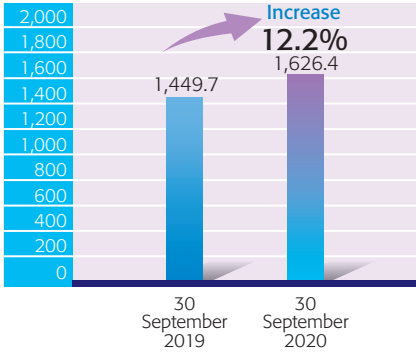


1. Water Supply Business Analysis

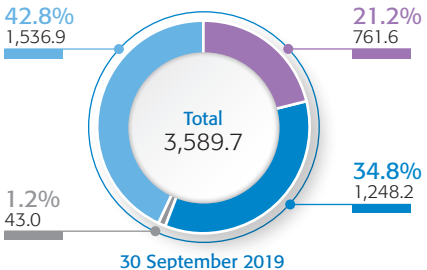
Revenue (HK\$ million)



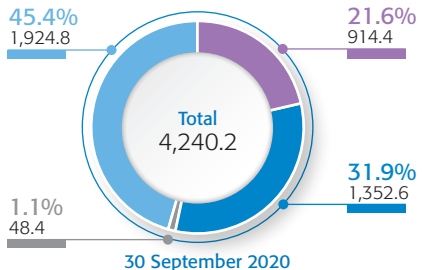
Profit (HK\$ million)



Revenue by nature (HK\$ million)



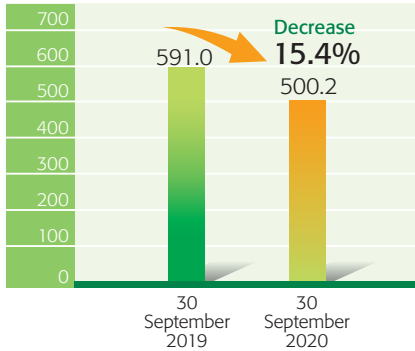
Revenue by nature (HK\$ million)



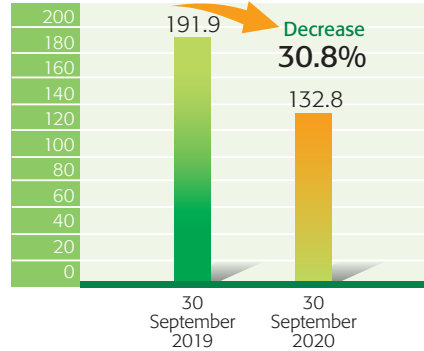
■ Water supply operation services ■ Water supply connection income ■ Water supply construction services ■ Others

2. Environmental Protection Business Analysis

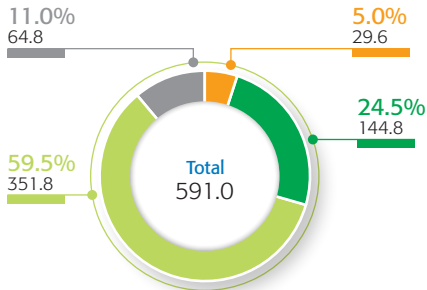
Revenue (HK\$ million)



Profit (HK\$ million)

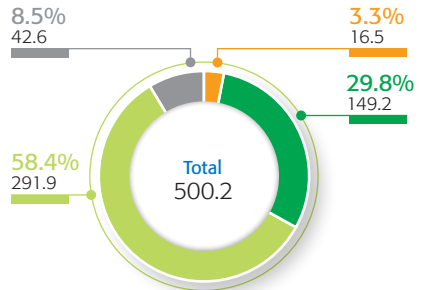


Revenue by nature (HK\$ million)



30 September 2019

Revenue by nature (HK\$ million)



30 September 2020

- 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 2020, together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September	
		2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Revenue	5	5,131,231	4,354,710
Cost of sales		(3,020,749)	(2,492,445)
Gross profit		2,110,482	1,862,265
Other income	5	205,850	207,509
Selling and distribution costs		(104,522)	(98,919)
Administrative expenses		(374,294)	(361,813)
(Loss)/gain on disposal of subsidiaries, net		(2,914)	878
Operating profit	7	1,834,602	1,609,920
Finance costs	8	(192,622)	(239,523)
Share of results of associates		72,070	291,389
Profit before income tax		1,714,050	1,661,786
Income tax expense	9	(446,560)	(377,818)
Profit for the period		1,267,490	1,283,968

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

		Six months ended 30 September	
		2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
<i>Notes</i>			
Profit for the period attributable to:			
Owners of the Company		826,479	881,080
Non-controlling interests		441,011	402,888
		<u>1,267,490</u>	<u>1,283,968</u>
Earnings per share for profit attributable to owners of the Company during the period			
	10	HK cents	HK cents
Basic		<u>51.68</u>	<u>54.83</u>
Diluted		<u>50.56</u>	<u>54.83</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Profit for the period	1,267,490	1,283,968
Other comprehensive income		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	234,077	(643,847)
– Recycling of currency translation differences upon disposal of subsidiaries	137	(313)
– Recycling of currency translation differences upon deemed disposal of an associate	1,688	–
<i>Items that will not be reclassified to profit or loss:</i>		
– Change in fair value of financial assets at fair value through other comprehensive income	(57,738)	10,227
– Share of other comprehensive income of associates	–	(6,617)
Other comprehensive income/(loss) for the period, net of tax	178,164	(640,550)
Total comprehensive income for the period	1,445,654	643,418
Total comprehensive income attributable to:		
Owners of the Company	947,824	392,782
Non-controlling interests	497,830	250,636
	1,445,654	643,418

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Notes			
ASSETS AND LIABILITIES			
Non-current assets			
	Property, plant and equipment	12 2,329,262	2,224,200
	Right-of-use assets	12 1,290,337	1,297,830
	Investment properties	1,066,895	1,031,042
	Interests in associates	13 2,317,232	2,227,812
	Financial assets at fair value through other comprehensive income	14 587,497	358,285
	Goodwill	1,326,198	1,320,004
	Other intangible assets	12 19,482,236	17,558,146
	Prepayments, deposits and other receivables	16 1,084,879	894,863
	Contract assets	775,103	670,545
	Receivables under service concession arrangements	1,046,425	1,031,570
		31,306,064	28,614,297
Current assets			
	Properties under development	1,509,197	1,505,720
	Properties held for sale	759,703	751,533
	Inventories	767,197	630,394
	Contract assets	364,433	295,993
	Receivables under service concession arrangements	64,970	62,361
	Trade and bills receivables	15 1,191,732	1,324,787
	Financial assets at fair value through profit or loss	570,456	292,135
	Due from non-controlling equity holders of subsidiaries	262,989	211,072
	Due from associates	136,180	13,411
	Prepayments, deposits and other receivables	16 1,735,807	1,597,350
	Pledged deposits	1,071,526	963,236
	Cash and cash equivalents	5,018,130	5,640,664
		13,452,320	13,288,656

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Notes			
Current liabilities			
	Lease liabilities	32,042	30,966
	Contract liabilities	794,052	906,157
	Trade and bills payables	3,450,779	3,106,708
	Accrued liabilities, deposits received and other payables	2,432,151	2,482,964
	Due to associates	55,883	121,805
	Borrowings	4,003,995	4,090,990
	Due to non-controlling equity holders of subsidiaries	223,769	163,642
	Provision for tax	1,660,403	1,432,744
		12,653,074	12,335,976
Net current assets			
		799,246	952,680
Total assets less current liabilities			
		32,105,310	29,566,977
Non-current liabilities			
	Borrowings	14,727,041	13,298,027
	Lease liabilities	333,523	335,379
	Contract liabilities	310,296	276,453
	Due to non-controlling equity holders of subsidiaries	480,595	412,979
	Deferred government grants	216,696	202,213
	Deferred tax liabilities	1,007,645	943,423
		17,075,796	15,468,474
Net assets			
		15,029,514	14,098,503

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
		<i>Notes</i>	
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	15,919	16,040
Reserves		9,313,247	8,491,670
		9,329,166	8,507,710
Non-controlling interests		5,700,348	5,590,793
Total equity		15,029,514	14,098,503

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Net cash inflow from operating activities	1,157,337	1,530,208
Net cash outflow from investing activities	(2,475,058)	(2,365,865)
Net cash inflow from financing activities	672,617	908,790
(Decrease)/Increase in cash and cash equivalents	(645,104)	73,133
Cash and cash equivalents at beginning of period	5,640,664	3,973,315
Effect of foreign exchange rates, net	22,570	(35,246)
Cash and cash equivalents at end of period	<u>5,018,130</u>	<u>4,011,202</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>5,018,130</u>	<u>4,011,202</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company														
	Share capital	Proposed dividend	Treasury shares	Convertible bonds equity reserve	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Financial assets at fair value through other comprehensive income revaluation reserve	Statutory reserves	Retained earnings	Non-controlling interests	Total equity	
	HK\$'000	HK\$'000	HK\$'000 (note 21)	HK\$'000 (note 22)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2020	16,040	256,645	-	-	5,113	147,201	(626,533)	96,808	(172,324)	106,224	631,110	8,049,426	8,507,710	5,599,795	14,096,935
Share repurchase (note 21)	(121)	-	(56,688)	-	-	(74,492)	-	-	-	-	-	-	(111,311)	-	(111,311)
Share repurchase expense (note 21)	-	-	(113)	-	-	(262)	-	-	-	-	-	-	(375)	-	(375)
Convertible bonds issued	-	-	-	282,190	-	-	-	-	-	-	-	-	282,190	-	282,190
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	55,709	55,709
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	(42,494)	-	-	-	(42,494)	(207,706)	(250,200)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,779)	(4,779)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	6,413	6,413
Final dividend approved	-	(256,645)	-	-	-	2,267	-	-	-	-	-	-	(254,378)	-	(254,378)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(237,912)	(237,912)
Transactions with owners	(121)	(256,645)	(56,811)	282,190	-	(72,487)	-	-	(42,494)	-	-	-	(126,568)	(388,275)	(514,645)
Proposed interim dividend	-	238,781	-	-	-	-	-	-	-	-	-	-	(238,781)	-	-
Transfer to capital redemption reserve (note 21)	-	-	-	-	121	-	-	-	-	-	-	-	(121)	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	826,479	826,479	441,011	1,267,490
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 14(f))	-	-	-	-	-	-	-	-	-	(57,738)	-	-	(57,738)	-	(57,738)
- Currency translation	-	-	-	-	-	-	177,258	-	-	-	-	-	177,258	56,819	234,077
- Recycling of reserves upon deemed disposal of an associate	-	-	-	-	-	-	-	-	(127)	193	-	(66)	-	-	-
- Recycling of currency translation differences upon deemed disposal of an associate	-	-	-	-	-	-	1,688	-	-	-	-	-	1,688	-	1,688
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	-	137	-	-	-	-	-	137	-	137
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	179,083	-	(127)	(57,545)	-	826,413	947,824	497,830	1,445,654
Balance at 30 September 2020 (unaudited)	15,919	238,781	(56,811)	282,190	3,254	74,714	(447,450)	96,808	(214,945)	48,679	631,110	8,636,937	9,329,166	5,700,340	15,029,514

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Equity attributable to owners of the Company												
	Share capital HK\$'000	Proposed dividend HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000	Other reserves HK\$'000	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2019	16,089	257,424	3,064	661,918	5,484	96,808	(220,028)	106,617	479,193	6,561,897	7,970,466	4,932,004	12,902,470
Share repurchase	(49)	-	-	(54,168)	-	-	-	-	-	-	(34,217)	-	(34,217)
Share repurchase expense	-	-	-	(119)	-	-	-	-	-	-	(119)	-	(119)
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	32,940	32,940
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	40,375	-	-	-	40,375	(117,036)	(76,661)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(31)	31	-	(140)	(140)
Deemed disposal of a subsidiary	-	-	-	-	-	-	(4,954)	-	-	-	(4,954)	4,954	-
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	81,704	81,704
Final dividend approved	-	(257,424)	-	779	-	-	-	-	-	-	(256,645)	-	(256,645)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(119,592)	(119,592)
Transactions with owners	(49)	(257,424)	-	(53,508)	-	-	35,421	-	(31)	31	(255,560)	(117,170)	(372,730)
Proposed interim dividend	-	224,564	-	(224,564)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	49	-	-	-	-	-	-	(49)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	881,080	881,080	402,888	1,283,968
Other comprehensive income/(less)	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 14(i))	-	-	-	-	-	-	-	10,227	-	-	10,227	-	10,227
- Currency translation	-	-	-	-	(491,595)	-	-	-	-	-	(491,595)	(152,252)	(643,847)
- Share of other comprehensive income of associates	-	-	-	-	-	-	511	(7,128)	-	-	(6,617)	-	(6,617)
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	(313)	-	-	-	-	-	(313)	-	(313)
Total comprehensive income/(loss) for the period	-	-	-	-	(491,908)	-	511	3,099	-	881,080	392,782	250,636	643,418
Balance at 30 September 2019 (unaudited)	16,040	224,564	3,113	403,846	(406,424)	96,808	(184,096)	111,716	479,162	7,442,959	8,107,688	5,065,470	13,173,158

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2020 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. Principal accounting policies

The principal accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2020 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 2020.

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
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

The amendments to standards 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. 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 2020.

4. Financial risk management and fair value measurements

4.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2020.

There have been no changes in the risk management policies since year ended 31 March 2020.

4.2 Fair value estimation

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

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

The following table presents the Group's financial assets that are measured at fair value at 30 September 2020:

	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	6,121	–	581,376	587,497
Financial assets at fair value through profit or loss	–	–	570,456	570,456
Net fair values (unaudited)	<u>6,121</u>	<u>–</u>	<u>1,151,832</u>	<u>1,157,953</u>

The following table presents the Group's financial assets that are measured at fair value at 31 March 2020:

	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	8,799	–	349,486	358,285
Financial assets at fair value through profit or loss	–	–	292,135	292,135
Net fair values (audited)	<u>8,799</u>	<u>–</u>	<u>641,621</u>	<u>650,420</u>

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

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

4.3 Information about Level 3 fair value measurement

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

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

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

	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Financial assets at fair value through other comprehensive income:		
Opening balance	349,486	335,524
Changes in fair value recognised in other comprehensive income	(55,060)	7,866
Acquisition of subsidiaries	–	56
Additions	282,978	21,120
Exchange realignment	3,972	(15,080)
Ending balance	581,376	349,486
Financial assets at fair value through profit or loss:		
Opening balance	292,135	488,648
Net purchase/(disposal) of financial assets at fair value through profit or loss	278,321	(196,513)
Ending balance	570,456	292,135

5. Revenue and other income

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

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Revenue:		
Water supply operation services	1,352,615	1,248,212
Water supply connection income	914,365	761,578
Water supply construction services	1,924,834	1,536,915
Sewage treatment and drainage operation services	165,692	174,406
Sewage treatment and water environmental renovation construction services	291,942	351,808
Sales of properties	282,323	88,205
Sales of goods	5,899	12,111
Hotel and rental income	39,931	48,372
Finance income	20,624	21,951
Handling income	16,957	15,333
Others	116,049	95,819
Total	<u>5,131,231</u>	<u>4,354,710</u>
Other income:		
Interest income	101,306	56,807
Government grants and subsidies*	70,356	105,537
Amortisation of deferred government grants	4,583	4,703
Gain on disposal of property, plant and equipment, net	1,465	6,544
Dividend income from financial assets	6,758	10,432
Miscellaneous income	21,382	23,486
Total	<u>205,850</u>	<u>207,509</u>

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

6. Segment information

The Group has identified the following reportable segments:

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

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

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

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

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

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

For the period ended 30 September 2020

	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	4,240,201	500,194	301,166	89,670	5,131,231
From inter-segment	-	-	-	-	-
Segment revenue	<u>4,240,201</u>	<u>500,194</u>	<u>301,166</u>	<u>89,670</u>	<u>5,131,231</u>
Segment profit	<u>1,626,362</u>	<u>132,781</u>	<u>64,344</u>	<u>18,753</u>	<u>1,842,240</u>
Unallocated corporate income					108,178
Unallocated corporate expense					(112,902)
Loss on disposal of subsidiaries, net					(2,914)
Finance costs					(192,622)
Share of results of associates	35,493	34,323	-	2,254	<u>72,070</u>
Profit before income tax					1,714,050
Income tax expense					<u>(446,560)</u>
Profit for the period					<u>1,267,490</u>
Total segment assets	<u>24,788,100</u>	<u>3,164,922</u>	<u>3,668,788</u>	<u>2,706,699</u>	<u>34,328,509</u>

For the period ended 30 September 2019

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

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.

7. Operating profit

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Depreciation of property, plant and equipment	39,685	35,142
Depreciation of right-of-use assets	32,086	29,205
Amortisation of other intangible assets	279,799	239,691

8. Finance costs

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Interest on bank loans	282,606	311,240
Interest on other loans	88,852	80,576
Interest on lease liabilities	8,843	5,354
Total borrowing costs	380,301	397,170
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(187,679)	(157,647)
	192,622	239,523

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 (2019: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Current income tax:		
– the PRC (<i>note</i>)	392,644	333,312
Deferred tax	53,916	44,506
Total income tax expense	446,560	377,818

Note: The provision for PRC current income tax is based on a statutory income tax rate of 25% (2019: 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% (2019: 15%) of their assessable income.

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

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of HK\$826,479,000 (2019: HK\$881,080,000) and the weighted average of 1,599,118,000 (2019: 1,606,933,000) ordinary shares in issue during the period.

For the financial period ended 30 September 2020, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$826,479,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was the adjusted weighted average of 1,634,684,000 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,599,118,000 used in basic earnings per share calculation and adjusted for the effect of deemed exercise or conversion of convertible bonds existing during the period of 35,566,000.

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

11. Dividend

Dividend attributable to the interim period:

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Interim dividend		
– HK\$0.15 (2019: HK\$0.14) per ordinary share	238,781	224,564

The interim dividend proposed after the reporting date for the financial period ended 30 September 2020 and 2019 were not recognised as a liability at the reporting date.

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

During the six months ended 30 September 2020, the addition in property, plant and equipment amounted to HK\$117,904,000 (31 March 2020: HK\$258,689,000); right-of-use assets amounted to HK\$7,216,000 (31 March 2020: HK\$256,656,000); and other intangible assets amounted to HK\$1,949,687,000 (31 March 2020: HK\$3,112,814,000).

13. Interests in associates

The carrying amount of interests in associates has changed as follows in the six months to 30 September 2020:

	Six months ended 30 September
	2020 (unaudited) HK\$'000
Opening balance	2,227,812
Additions	7,324
Disposals	(3,089)
Credited to profit or loss	72,070
Credited to other comprehensive income	1,688
Dividend paid	(9,875)
Exchange realignment	21,302
Ending balance	2,317,232

14. Financial assets at fair value through other comprehensive income*(i) Equity investments at fair value through other comprehensive income*

		As at	
	Original currency	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Listed equity securities in Hong Kong	HK\$	6,121	8,799
Unlisted exchangeable bonds in Hong Kong	HK\$	227,130	–
Unlisted equity securities outside Hong Kong	RMB	354,246	349,486
		587,497	358,285

(ii) Amount recognised in consolidated income statement and other comprehensive income

During the period, the following (loss)/gain was recognised in consolidated income statement and other comprehensive income.

		Six months ended 30 September 2020 (unaudited) HK\$'000	
			2019 (unaudited) HK\$'000
Change in fair value of financial assets at fair value through other comprehensive income		(57,738)	10,227
Dividend income from financial assets (note 5)		6,758	10,432

15. Trade and bills receivables

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

	As at	
	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
0 to 90 days	528,995	773,703
91 to 180 days	76,820	120,514
Over 180 days	585,917	430,570
	<u>1,191,732</u>	<u>1,324,787</u>

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

16. Prepayments, deposits and other receivables

		As at	
	<i>Notes</i>	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Non-current			
Prepayments and other receivables	(i)	<u>1,084,879</u>	<u>894,863</u>
Current			
Prepayments		248,625	257,957
Other receivables	(ii)	<u>1,487,182</u>	<u>1,339,393</u>
		<u>1,735,807</u>	<u>1,597,350</u>

Notes:

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

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

17. Trade and bills payables

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

	As at	
	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
0 to 90 days	1,783,814	2,148,969
91 to 180 days	413,354	459,900
Over 180 days	1,253,611	497,839
	<u>3,450,779</u>	<u>3,106,708</u>

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

As at 30 September 2020, the bills payables of HK\$383,138,000 (31 March 2020: HK\$378,441,000) were secured by the pledged bank deposits of HK\$214,385,000 (31 March 2020: HK\$255,032,000).

18. Accrued liabilities, deposits received and other payables

	As at	
	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Accrued liabilities	444,234	433,433
Deposits received	61,069	46,028
Other payables (<i>note</i>)	1,926,848	2,003,503
	<u>2,432,151</u>	<u>2,482,964</u>

Note: Other payables mainly included water supply and sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$459,484,000 (31 March 2020: HK\$527,028,000), payables for other PRC tax surcharges and construction costs, and payables for the Company's final dividend of HK\$254,378,000 (31 March 2020: HK\$ Nil).

19. Borrowings

	Original currency	As at	
		30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Current			
Bank loans – unsecured	RMB	1,175,119	893,946
Bank loans – secured	RMB	1,612,182	1,405,832
Bank loans due for repayment which contain a repayment on demand clause – unsecured (<i>note</i>)	USD	374,400	499,000
Bank loans – unsecured	USD	633,954	1,107,917
Other loans – unsecured	RMB	27,784	27,472
Other loans – secured	RMB	–	30,236
Other loans – secured	USD	91,765	36,706
Government loans – unsecured	RMB	88,791	89,881
		4,003,995	4,090,990
Non-current			
Bank loans – unsecured	RMB	1,179,046	1,171,148
Bank loans – secured	RMB	3,752,713	3,028,301
Bank loans – unsecured	USD	6,090,663	5,577,418
Bank loans – unsecured	HK\$	496,623	496,206
Other loans – unsecured	RMB	86,923	309,511
Other loans – unsecured	USD	2,307,875	2,301,428
Other loans – secured	USD	670,414	271,848
Government loans – unsecured	RMB	142,784	142,167
		14,727,041	13,298,027
		18,731,036	17,389,017

Note: Due to the unconditional right to demand repayment stated in the relevant loan agreement, the current liabilities of the Group as at 30 September 2020 included bank loan of USD48,000,000 (approximately HK\$374,400,000) that are not scheduled to repay within one year. It is classified as current liability as the related loan agreement contains a clause that provides the lender with an unconditional right to demand repayment at the fifth anniversary to the related loan agreement any time at its own discretion. The right will expire within twelve months from 30 September 2020 and the loan amount will be reclassified in accordance with the scheduled repayment.

20. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2020 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 2020 was HK\$86,043,000 (31 March 2020: HK\$92,164,000);
- (d) charges over the right-of-use assets in which their aggregate carrying amount as at 30 September 2020 was HK\$198,234,000 (31 March 2020: HK\$177,438,000);
- (e) charges over investment properties in which their aggregate carrying amount as at 30 September 2020 was HK\$954,307,000 (31 March 2020: HK\$301,011,000);
- (f) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2020 was HK\$1,081,317,000 (31 March 2020: HK\$1,011,983,000);
- (g) charges over properties held for sale in which their aggregate carrying amount as at 30 September 2020 was HK\$76,783,000 (31 March 2020: HK\$75,920,000);
- (h) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 30 September 2020 was HK\$235,227,000 (31 March 2020: HK\$232,584,000); and
- (i) charges over the Group's bank deposits in amount of HK\$1,071,526,000 as at 30 September 2020 (31 March 2020: HK\$963,236,000).

21. Share capital

	<i>Notes</i>	Number of shares '000	Par value HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each At 30 September 2020 and 31 March 2020		<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each At 31 March 2019 (audited)		1,608,901	16,089
Repurchased and cancelled	(i)	<u>(4,872)</u>	<u>(49)</u>
At 31 March 2020 (audited)		1,604,029	16,040
Repurchased and cancelled	(ii)	<u>(12,156)</u>	<u>(121)</u>
At 30 September 2020 (unaudited)		<u>1,591,873</u>	<u>15,919</u>

Notes:

- (i) During the six month ended 30 September 2019, the Company repurchased a total of 4,872,000 ordinary shares of the Company at an aggregate cost of approximately HK\$34,217,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$7.46 and HK\$6.08 per share respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the contributed surplus. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.
- (ii) During the six month ended 30 September 2020, the Company repurchased a total of 18,142,000 ordinary shares of the Company at an aggregate cost of approximately HK\$111,311,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$6.81 and HK\$5.52 per share respectively. 12,156,000 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 contributed surplus. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

The remaining 5,986,000 repurchased shares with a repurchase cost of approximately HK\$36,811,000 (including expenses) were held as treasury shares as at 30 September 2020.

22. Convertible bonds equity reserve

On 1 April 2020, the Company entered into a subscription agreement with Baring Private Equity Asia V Holding (5) Limited (“BPEA”) (the “Proposed Subscription”) pursuant to which the Company conditionally agreed to subscribe for, and BPEA conditionally agreed to issue, the exchangeable bonds (the “Exchangeable Bonds”). The consideration shall be satisfied by the Company issuing the convertible bonds to BPEA to convert into up to 44,886,521 ordinary shares of the Company (“Conversion Share”) at the initial conversion price (subject to adjustment) of HK\$8.05 per Conversion Share (the “Convertible Bonds”). Further details of which are disclosed in the Company’s announcement dated 1 April 2020. The Proposed Subscription was completed on 8 May 2020, and the Exchangeable Bonds and the Convertible Bonds with the amounts of HK\$282,190,000 were issued on 8 May 2020 accordingly.

On initial recognition, the Exchangeable Bonds were recognised in “Financial assets at fair value through other comprehensive income” and the Convertible Bonds were recognised in “Convertible bonds equity reserve”. The Company has no obligation to pay any interest or other payments to the holder of the Convertible Bonds. The holder of the Convertible Bonds is free to exercise the conversion right attached thereto from the date of issue of the Convertible Bonds and up to the last day of the 31st month from the issue date thereof. As at 30 September 2020, no Convertible Bonds were exercised upon issuance.

23. 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:*

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	35,989	35,643
– Retirement scheme contribution	203	336
	36,192	35,979

(b) Sales to an associate:

	Six months ended 30 September	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000
Sales to an associate	36,489	—

The Group provided construction services of approximately HK\$36,489,000 (2019: HK\$Nil) to a subsidiary of Kangda International, an associate of the Group. The services were made with reference to the terms negotiated between both parties.

24. Commitments and guarantees

(i) Capital commitments

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

	As at	
	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Contracted, but not provided for		
– Other intangible assets	366,184	422,944
– Property, plant and equipment	18,981	24,374
	385,165	447,318

(ii) *Operating lease arrangement*

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

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

	As at	
	30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
Within one year	29,532	32,864
In the second to fifth years, inclusive	22,907	32,715
After five years	844	344
	53,283	65,923

- (iii) As at 30 September 2020, the Group had given guarantees to the banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$924,000 (31 March 2020: HK\$1,349,000).

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.

25. Contingent liabilities

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

BUSINESS REVIEW, CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.15 per ordinary share (2019: HK\$0.14 per ordinary share) for the six months ended 30 September 2020. The interim dividend is expected to be paid on or about Friday, 29 January 2021 to the shareholders whose names appear on the register of members on Wednesday, 16 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 14 December 2020 to Wednesday, 16 December 2020 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 2020, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 11 December 2020.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$4,354.7 million for the six months ended 30 September 2019 to HK\$5,131.2 million for the six months ended 30 September 2020, representing a steady increase of 17.8%. The Group continued its strategy to focus on core business. For the period under review, the Group recorded a steady growth in its "City water supply operation and construction" and "Environmental protection" segments. The total revenue attributable to the "City water supply operation and construction" and "Environmental protection" segments increased from HK\$4,180.7 million to HK\$4,740.4 million. This represented a steady and continuous growth of segments revenue by 13.4%, 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, Guizhou, 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\$4,240.2 million (2019: HK\$3,589.7 million), representing a steady increase of 18.1% as compared with the last corresponding period. The water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,626.4 million (2019: HK\$1,449.7 million), representing a steady increase of 12.2% 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 water supply integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the direct drinking water business and new water projects during the period.

(ii) Environmental Protection Business Analysis

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

For the period under review, the revenue from environmental protection segment amounted to HK\$500.2 million (2019: HK\$591.0 million), representing a decrease of 15.4% 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\$132.8 million (2019: HK\$191.9 million), representing a significant decrease of 30.8% as compared with the last corresponding period. This was mainly due to the decrease in the work for upgrade of facilities for higher operating standard and water environmental renovation construction services in current period.

(iii) Property Business Analysis

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

For the period under review, the revenue from the property business segment amounted to HK\$301.2 million (2019: HK\$106.2 million). The total property business segment profit amounted to HK\$64.3 million (2019: HK\$13.2 million), representing a significant increase of 387.1% as compared with the last corresponding period. This was mainly due to the increase in sales of property projects in current period.

For the period under review, the overall decrease in the Group's share of results of associates was mainly attributable to the decrease in the one-off contribution arising from the acquisition of interests in Kangda International, whose ordinary shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the period under review, the total contribution to the Group by Kangda International amounted to HK\$35.3 million, which comprised (i) the deemed loss on disposal of HK\$40.3 million arising from the exercise of 107,350,000 share options of Kangda International at the exercise price of HK\$0.76 per share held by the share options holders, resulting in the issue of 107,350,000 ordinary shares of HK\$0.01 each of Kangda International for a total cash consideration of HK\$81,586,000; and (ii) share of results of Kangda International of HK\$75.6 million. For the corresponding period under review, the total contribution to the Group by Kangda International amounted to HK\$259.6 million, which comprised (i) the excess of the investor's share of the net fair value of associate's identifiable assets and liabilities over the cost of the investment of HK\$214.8 million; and (ii) share of results of Kangda International of HK\$44.8 million.

PROSPECTS

During the first half of 2020, the ongoing COVID-19 pandemic continued to deal a blow to every industry. Facing such unprecedented challenges, the Group was able to respond calmly and leverage the advantages of stable public utilities income and cash flow to maintain steady business development and enhance service standards with its healthy financial foundation. During the reporting period, the Group's water companies in over 100 cities across the country aligned themselves with the local government's economic reinvigoration scheme and activated contingency plans to strengthen nationwide safety precautions, adjusted staff working and production models and established reporting mechanism. In particular, the various information technology and automated systems developed by the Group over the past years played an important role in securing the safe production of water supply, ensuring a safe and stable operation of its water supply and sewage treatment in every city the Group operates.

Looking forward, the global impact and pressure brought by the COVID-19 pandemic are yet to be alleviated and its effects are difficult to estimate. Uncertainties in the international financial market have also resulted in a more unpredictable development of the mainland economy. However, China's GDP has achieved turnaround in the first three quarters and improved to 4.9% in the third quarter. It is expected that there will be room for the development and enhancement of the water business as the economy gradually recovers and grows.

The Group will continue to maintain its two core development strategies, namely urban-rural water supply integration and supply-drainage integration. The Group shall allocate its resources and equipment appropriately according to the pace of economic recovery and development in different regions, with the goal to continue to expand its businesses in the area of water infrastructure and public services and proactively expand its value-added services, so as to enhance its overall services capability, and the efficiency and quality of its all-round services of its relevant businesses in the water industry chain, with its urban water supply services as the focus. As to the direction of future business development, the Group shall focus on the development of its core water supply business, accelerate the development of its value-added businesses including direct drinking water, and further improve and promote the smart pipeline network system, in order to boost its core competitiveness and emergency coping ability, and provide better services to the society and people, so as to create higher returns for its shareholders.

ISSUE OF CONVERTIBLE BONDS

On 1 April 2020, the Company entered into a subscription agreement with Baring Private Equity Asia V Holding (5) Limited (“BPEA”) (the “Proposed Subscription”) pursuant to which the Company conditionally agreed to subscribe for, and BPEA conditionally agreed to issue, the exchangeable bonds for a consideration of approximately HK\$361.3 million (the “Exchangeable Bonds”). The consideration shall be satisfied by the Company issuing the convertible bonds to BPEA to convert into up to 44,886,521 ordinary shares of the Company (“Conversion Share”) at the initial conversion price (subject to adjustment) of HK\$8.05 per Conversion Share (the “Convertible Bonds”). BPEA conditionally agreed to subscribe for the Convertible Bonds of the Company in an aggregate principal amount of approximately HK\$361.3 million.

Further details of which are disclosed in the Company’s announcement dated 1 April 2020. The Proposed Subscription was completed on 8 May 2020 and the Convertible Bonds and the Exchangeable Bonds were issued on 8 May 2020 accordingly.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2020, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$6,089.7 million (31 March 2020: HK\$6,603.9 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 66.4% (31 March 2020: 66.4%) as at 30 September 2020. The current ratio is 1.06 times (31 March 2020: 1.08 times) as at 30 September 2020. The decrease in current ratio is mainly due to classification of long-term loan with repayment option amounting to USD48 million (approximately HK\$374 million) (31 March 2020: USD64 million (approximately HK\$499 million)) from non-current liability into current liability. 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 2020, the Group has employed approximately 10,000 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 2020, 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 of the Company

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in the Company (Note (v))
		Long position	Short position	
Mr. Duan Chuan Liang (Notes (i)&(ii))	Corporate and personal	470,880,301	–	29.58%
Ms. Ding Bin	Personal	5,700,000	–	0.36%
Ms. Liu Yu Jie	Personal	12,000,000	–	0.75%
Mr. Li Zhong (Notes (iii)&(iv))	Personal	37,627,457	–	2.36%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.27%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.05%
Ms. Wang Xiaoqin	Personal	8,950,000	–	0.56%
Ms. Ho Ping	Personal	978,000	–	0.06%

Shares of Kangda International, an associated corporation of the Company

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in Kangda International
		Long position	Short position	
Mr. Li Zhong	Personal	10,000,000	–	0.47%
Ms. Liu Yu Jie	Personal	10,000,000	–	0.47%
Mr. Duan Jerry Linnan	Personal	10,000,000	–	0.47%
Mr. Chau Kam Wing	Personal	2,000,000	–	0.09%

Notes:

- (i) These 470,880,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited (“AFRL”), which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 252,836,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) Mr. Duan Chuan Liang is also interested in USD3,000,000 senior notes of the Company due 2022 through AFRL.
- (iii) These 37,627,457 shares consist of 8,420,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.
- (iv) Mr. Li Zhong is also interested in 0.64% equity interest in Shenzhen Gold Tact Environmental Holdings Co. Ltd (a non-wholly owned subsidiary of the Company) through Total Happy Investment Limited, his controlled corporation.
- (v) The percentages of shareholding in the Company were calculated on the basis that 5,986,000 repurchased shares were not cancelled as at 30 September 2020.

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 2020, so far as is known to any director or chief executive of the Company, the following persons had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholder	Capacity/ Nature of interest	Number of shares			Approximate percentage of shareholding in the Company (Note (ii))		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	470,880,301	-	-	29.58%	-	-
Asset Full Resources Limited (Note (i))	Beneficial	218,044,301	-	-	13.70%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	18.29%	-	-

Notes:

- (i) These shares are beneficially owned by AFRL, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Mr. Duan Chuan Liang, the Chairman and executive director of the Company.
- (ii) The percentages of shareholding in the Company were calculated on the basis that 5,986,000 repurchased shares were not cancelled as at 30 September 2020.

Save as disclosed above, as at 30 September 2020, so far as is known to any director or chief executive of the Company, no person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

During the six months ended 30 September 2020, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

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

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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 4 September 2020 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the 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 2020 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 2020 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 as follows:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration (excluding expenses)
		per share HK\$	per share HK\$	HK\$
June 2020	364,000	5.58	5.52	2,018,000
July 2020	7,510,000	6.64	5.54	44,889,000
August 2020	5,348,000	6.81	6.18	34,483,000
September 2020	4,920,000	6.38	5.84	29,921,000
October 2020	984,000	5.73	5.60	5,567,000

During the period ended 30 September 2020, the Company repurchased a total of 18,142,000 ordinary shares of HK\$0.01 each in the capital of the Company. 12,156,000 repurchased shares were cancelled in August 2020. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the contributed surplus of the Company. The remaining 5,986,000 repurchased shares were not cancelled at 30 September 2020.

Subsequent to the reporting date and up to the date of this interim report, the Company repurchased a total of 984,000 ordinary shares of HK\$0.01 each in the capital of the Company. 5,986,000 repurchased shares were cancelled in October 2020. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against contributed surplus of the Company. The remaining 984,000 repurchased shares were not cancelled up to the date of this interim report.

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

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

AUDIT COMMITTEE

The Audit Committee which comprises the five 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 2020 with the directors.

On behalf of the Board

China Water Affairs Group Limited

Duan Chuan Liang

Chairman

Hong Kong, 26 November 2020

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