中國水務集團有限公司*

China Water Affairs Group Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 855)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

KEY HIGHLIGHTS

- The Group recorded a revenue of HK$3,020.0 million, representing a significant increase of 59.1% from HK$1,898.4 million in last corresponding period.
- The revenue from city water supply operation and construction amounted to HK$2,644.8 million (2015: HK$1,555.5 million), representing a significant increase of 70.0% as compared with the last corresponding period. The relevant segment profit amounted to HK$917.2 million (2015: HK$591.5 million), representing a significant increase of 55.1% as compared with the last corresponding period.
- The revenue from sewage treatment and drainage operation and construction amounted to HK$247.9 million (2015: HK$162.4 million), representing a significant increase of 52.6% as compared with the last corresponding period. The relevant segment profit amounted to HK$79.7 million (2015: HK$77.7 million), representing an increase of 2.6% as compared with the last corresponding period.
- The combined revenue from city water supply operation and construction and sewage treatment and drainage operation and construction business amounted to HK$2,892.7 million (2015: HK$1,717.9 million), representing a significant increase of 68.4% as compared with the last corresponding period. The relevant combined segment profit amounted to HK$996.8 million (2015: HK$669.2 million), representing a significant increase of 49.0% as compared with the last corresponding period.
- Profit for the period attributable to owners of the Company was HK$429.1 million, representing a significant increase of 49.3% from HK$287.4 million in last corresponding period.
- Earnings before interest, taxes, depreciation and amortisation which is calculated as profit from operation before depreciation and amortisation amounted to HK$1,372.4 million, representing a significant increase of 59.4% from HK$860.8 million in last corresponding period.
- Basic earnings per share for the period was HK28.43 cents, representing a significant increase of 48.1% from HK19.20 cents in last corresponding period.
- In consideration of the satisfactory results, the board of directors has proposed to pay the equity shareholders of the Company the interim dividend of HK4 cents per share (2015: HK3 cents per share).

* *For identification purpose only*

RESULTS

The board of directors (the "Board") of China Water Affairs Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2016, together with the comparative figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2016	2015
		(unaudited)	(unaudited)
			(restated)
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**3,020,044**	1,898,443
Cost of sales		**(1,773,554)**	(1,037,286)
Gross profit		**1,246,490**	861,157
Other income	3	**102,413**	122,560
Selling and distribution costs		**(74,965)**	(50,613)
Administrative expenses		**(305,701)**	(242,905)
Equity-settled share options expenses		**(13,273)**	(34,606)
Fair value gain on investment properties		**247,619**	62,299
Change in fair value of derivative financial instruments		**(19,533)**	(9,749)
Loss on repurchase/redemption of convertible bonds		**–**	(33)
Profit from operation	5	**1,183,050**	708,110
Finance costs	6	**(135,568)**	(92,515)
Share of results of associates		**(82,395)**	57,441
Profit before income tax		**965,087**	673,036
Income tax expense	7	**(293,105)**	(180,635)
Profit for the period		**671,982**	492,401

		Six months ended 30 September	
		2016	2015
		(unaudited)	(unaudited)
			(restated)
	Notes	***HK$'000***	*HK$'000*
Profit for the period attributable to:			
Owners of the Company		**429,052**	287,433
Non-controlling interests		**242,930**	204,968
		671,982	492,401
Earnings per share for profit attributable to owners of the Company during the period	8	***HK cents***	*HK cents*
Basic		**28.43**	19.20
Diluted		**28.19**	19.11

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2016 (unaudited) HK$'000	31 March 2016 (restated) HK$'000
		As at	
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**581,093**	589,755
Prepaid land lease payments		**553,487**	555,104
Investment properties		**1,131,903**	908,346
Interests in associates		**1,315,454**	1,333,517
Available-for-sale financial assets		**225,326**	226,767
Goodwill		**690,920**	663,668
Other intangible assets		**9,039,114**	8,041,454
Receivables under service concession arrangements		**608,561**	540,740
Deposits and prepayments		**139,236**	145,790
		14,285,094	13,005,141
Current assets			
Properties under development		**568,987**	523,551
Properties held for sale		**274,624**	273,302
Inventories		**379,153**	288,606
Trade and bills receivables	10	**1,059,357**	1,083,551
Receivables under service concession arrangements		**29,914**	29,765
Financial assets at fair value through profit or loss		**672**	879
Due from non-controlling equity holders of subsidiaries		**207,962**	307,572
Due from associates		**1,403,041**	402,855
Prepayments, deposits and other receivables		**1,088,527**	970,239
Derivative financial assets		**47,471**	67,004
Pledged deposits		**323,399**	466,762
Deposits and cash		**2,250,279**	2,551,836
		7,633,386	6,965,922

	Notes	As at 30 September 2016 (unaudited) HK$'000	31 March 2016 (restated) HK$'000
Current liabilities			
Trade and bills payables	11	**1,003,909**	855,236
Accrued liabilities, deposits received and other payables		**2,248,211**	1,781,646
Due to non-controlling equity holders of subsidiaries		**120,287**	190,382
Due to associates		**17,928**	49,772
Borrowings		**2,396,019**	2,155,788
Provision for tax		**550,627**	524,147
		6,336,981	5,556,971
Net current assets		**1,296,405**	1,408,951
Total assets less current liabilities		**15,581,499**	14,414,092
Non-current liabilities			
Borrowings		**5,872,341**	5,076,242
Deposits received		**218,809**	192,415
Due to associates		**14,159**	11,951
Due to non-controlling equity holders of subsidiaries		**33,333**	17,073
Deferred government grants		**127,865**	99,809
Deferred tax liabilities		**647,602**	570,160
		6,914,109	5,967,650
Net assets		**8,667,390**	8,446,442
EQUITY			
Equity attributable to owners of the Company			
Share capital		**15,014**	15,199
Proposed dividend		**60,057**	75,993
Reserves		**5,306,554**	5,172,180
		5,381,625	5,263,372
Non-controlling interests		**3,285,765**	3,183,070
Total equity		**8,667,390**	8,446,442

Notes:

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 March 2016 except for the adoption of the new standards and amendments to HKFRSs issued by the HKICPA that have become effective for accounting period beginning on 1 April 2016.

In preparing the interim condensed consolidated financial statements for the six months ended 30 September 2016, the management has made certain prior period adjustments in relation to service concession arrangements of its water business, the details of which are set out in note 13.

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

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

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

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

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

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

4. SEGMENT INFORMATION

The Group has identified the following reportable segments:

(i) "Water" segment which is presented as "City water supply operation and construction" and "Sewage treatment and drainage operation and construction" segments involve the provision of water supply, sewage treatment and drainage operation and construction services;

(ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation; and

(iii) "Concrete related products and services" segment involves production and sales of ready-mixed concrete and related services.

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

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

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

For the financial period ended 30 September 2016

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

For the financial period ended 30 September 2015

	City water supply operation and construction (unaudited) (restated) *HK$'000*	Sewage treatment and drainage operation and construction (unaudited) (restated) *HK$'000*	Property development and investment (unaudited) (restated) *HK$'000*	Concrete related products and services (unaudited) (restated) *HK$'000*	All other segments (unaudited) (restated) *HK$'000*	Total (unaudited) (restated) *HK$'000*
Revenue						
From external customers	1,555,521	162,405	15,178	123,943	41,396	1,898,443
From inter-segment	–	–	–	–	–	–
Segment revenue	1,555,521	162,405	15,178	123,943	41,396	1,898,443
Segment profit	591,496	77,749	61,534	20,815	14,456	766,050
Unallocated corporate income						70,260
Unallocated corporate expense						(83,812)
Equity-settled share options expenses						(34,606)
Change in fair value of derivative financial instruments						(9,749)
Loss on repurchase/redemption of convertible bonds						(33)
Finance costs						(92,515)
Share of results of associates	10,857	91	(38,845)	–	85,338	57,441
Profit before income tax						673,036
Income tax expense						(180,635)
Profit for the period						492,401
Total segment assets	9,897,372	1,027,961	1,693,308	383,852	928,516	13,931,009

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

5. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2015: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

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

8. EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of HK$429,052,000 (2015: HK$287,433,000, restated) and the weighted average of 1,509,412,660 (2015: 1,497,180,266) ordinary shares in issue during the period.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the financial period ended 30 September 2016, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK$429,052,000 and on the weighted average of 1,522,162,718 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,509,412,660 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 12,750,058.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the financial period ended 30 September 2015, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK$287,433,000 (restated) and on the weighted average of 1,504,193,677 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,497,180,266 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 7,013,411.

9. DIVIDENDS

Dividends attributable to the interim period

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

The interim dividend proposed after the reporting date for the financial period ended 30 September 2016 and 2015 have not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the financial period ended 30 September 2016 and 2015 respectively.

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

11. TRADE AND BILLS PAYABLES

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

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

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

12. EVENT AFTER THE REPORTING PERIOD

On 28 November 2016, the Group entered into a supplemental agreement and a second sell and purchase agreement to dispose of its equity interest of 668,912,000 shares in total (representing approximately 29.0% of the total number of issued shares) in China City Infrastructure Group Limited (whose ordinary shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 2349)), an associate of the Group as at 30 September 2016, at the price of HK$0.8 per share. The transaction is not yet completed on 30 November 2016 and is subject to fulfilment or waiver of the conditions precedent set out in the relevant agreements. The total consideration of HK$535.1 million is intend to be used for future city water supply and sewage treatment related business developments and general working capital of the Group. The gain or loss on disposal is subject to the carrying amount of the interest in the shares upon the completion of the transaction.

13. PRIOR PERIOD ADJUSTMENTS

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

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

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

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

– the grantor controls or regulates the water supply service, the Group must provide with the infrastructure, to whom it must provide them, and at what price: and

– the grantor controls the residual interest in the water supply infrastructure at the end of the service concession arrangements.

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

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

The following adjustments are made:

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

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

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

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

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

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

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

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

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

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

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

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

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

Impact on the total equity as at 1 April 2015:

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

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

INTERIM DIVIDEND

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

BUSINESS REVIEW

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

(i) *Water Supply Business Analysis*

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

For the period under review, the revenue from city water supply operation and construction amounted to HK$2,644.8 million (2015: HK$1,555.5 million), representing a significant increase of 70.0% as compared with the last corresponding period. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK$917.2 million (2015: HK$591.5 million), representing a significant increase of 55.1% as compared with the last corresponding period. This was mainly because of procurement of more construction and connection work driven by the continuation of urban-rural integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the new water projects during the period.

(ii) *Sewage Treatment Business Analysis*

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

For the period under review, the revenue from sewage treatment and drainage operation and construction business amounted to HK$247.9 million (2015: HK$162.4 million), representing a significant increase of 52.6% as compared with the last corresponding period. The sewage treatment and drainage segment profit (including sewage treatment and drainage operating and construction) amounted to HK$79.7 million (2015: HK$77.7 million), representing an increase of 2.6% as compared with the last corresponding period.

(iii) Property Business Analysis

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

For the period under review, the revenue from the property business segment amounted to HK$10.4 million (2015: HK$15.2 million). The total property business segment profit amounted to HK$247.9 million (2015: HK$61.5 million), representing a substantial increase of 303.1% as compared with the last corresponding period, which was mainly because of the increase in the fair value gain on investment properties by HK$185.3 million (2015: fair value gain of HK$62.3 million) in current period.

(iv) Concrete Business Analysis

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

For the period under review, the revenue from concrete business segment amounted to HK$99.7 million (2015: HK$123.9 million). The total concrete business segment profit amounted to HK$4.9 million (2015: HK$20.8 million), representing a significant decrease of 76.4% as compared with the last corresponding year.

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

PRIOR PERIOD ADJUSTMENTS

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

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

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

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

– the grantor controls or regulates the water supply service, the Group must provide with the infrastructure, to whom it must provide them, and at what price: and

– the grantor controls the residual interest in the water supply infrastructure at the end of the service concession arrangements.

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

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

The following adjustments are made:

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

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

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

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

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

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

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

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

In addition to the financial impact as disclosed in note 13 to the interim results, the Group's consolidated financial statements for the year ended 31 March 2016 have been restated retrospectively to reflect impact of these adjustments.

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

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

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

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

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

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

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

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

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

PROSPECTS

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2016, the Group has total cash and deposits balances of approximately HK$2,573.7 million (31 March 2016: HK$3,018.6 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 60.5% (31 March 2016: 57.7%) as at 30 September 2016. The current ratio is 1.20 times (31 March 2016: 1.25 times) as at 30 September 2016. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

HUMAN RESOURCES

As at 30 September 2016, the Group has employed approximately 7,000 staff. Most of them are stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements. During the six months ended 30 September 2016, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

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

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

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 2 September 2016 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code throughout the six months ended 30 September 2016 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2016 and subsequent to the reporting date and up to the date of this announcement, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

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

During the period ended 30 September 2016, the Company repurchased a total of 23,966,000 ordinary shares of HK$0.01 each in the capital of the Company. 8,160,000 and 10,278,000 repurchased shares were cancelled in June 2016 and August 2016 respectively. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company. The remaining 5,528,000 repurchased shares were not cancelled at 30 September 2016.

Subsequent to the reporting date and up to the date of this announcement, the Company repurchased a total of 1,652,000 ordinary shares of HK$0.01 each in the capital of the Company. 7,180,000 repurchased shares were cancelled in November 2016. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

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

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 16 December 2016 to Tuesday, 20 December 2016 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the interim dividend for the six months ended 30 September 2016, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 15 December 2016.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Audit Committee which comprises the four independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2016 with the directors.

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

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company and the Stock Exchange. The interim report will be despatched to the shareholders of the Company and made available on the same websites in due course.

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

Hong Kong, 30 November 2016

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