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**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 2019**

**KEY HIGHLIGHTS**

- The Group recorded a revenue of HK\$4,354.7 million, representing a steady increase of 5.1% from HK\$4,141.8 million in last corresponding period.
- Revenue composition of city water supply operation and construction segment remained robust. Revenue contribution from water supply operation services and water supply connection income amounted to HK\$2,009.8 million (2018: HK\$1,819.5 million), representing a steady increase of 10.5% as compared with the last corresponding period. Revenue contribution from water supply construction services amounted to HK\$1,536.9 million (2018: HK\$1,299.8 million), representing a steady increase of 18.2% as compared with the last corresponding period. The revenue from city water supply operation and construction segment amounted to HK\$3,589.7 million (2018: HK\$3,166.8 million), representing a steady increase of 13.4% as compared with the last corresponding period. The revenue from city water supply operation and construction segment represented approximately 82.4% (2018: 76.5%) of the total revenue. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,449.7 million (2018: HK\$1,242.7 million), representing a steady increase of 16.7% as compared with the last corresponding period.

\* For identification purpose only

- Revenue contribution from sewage treatment and drainage operation services amounted to HK\$174.4 million (2018: HK\$147.0 million), representing a steady increase of 18.6% as compared with the last corresponding period. Revenue contribution from sewage treatment and water environmental renovation construction services amounted to HK\$351.8 million (2018: HK\$654.9 million), representing a significant decrease of 46.3% as compared with the last corresponding period. The revenue from environmental protection segment amounted to HK\$591.0 million (2018: HK\$834.6 million), representing a significant decrease of 29.2% as compared with the last corresponding period. The revenue from environmental protection segment represented approximately 13.6% (2018: 20.1%) of the total revenue. 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\$191.9 million (2018: HK\$295.0 million), representing a significant decrease of 34.9% as compared with the last corresponding period.
- Earnings before interest, taxes, depreciation and amortisation which is calculated as profit before finance costs, income tax, depreciation and amortisation amounted to HK\$2,205.3 million, representing a steady increase of 23.9% from HK\$1,779.2 million in last corresponding period.
- Profit for the period attributable to owners of the Company was HK\$881.1 million, representing a significant increase of 36.4% from HK\$645.8 million in last corresponding period.
- Basic earnings per share for the period was HK54.83 cents, representing a significant increase of 36.6% from HK40.14 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 HK14 cents per share (2018: HK12 cents per share), representing a steady increase of 16.7% as compared with the last corresponding period.

## 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 2019, together with the comparative figures for the corresponding period in 2018, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2019	2018
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	4	4,354,710	4,141,820
Cost of sales		<u>(2,492,445)</u>	<u>(2,321,664)</u>
<b>Gross profit</b>		<b>1,862,265</b>	1,820,156
Other income	4	207,509	103,674
Selling and distribution costs		(98,919)	(91,668)
Administrative expenses		(361,813)	(324,090)
Gain on disposal of subsidiaries, net		<u>878</u>	<u>6,071</u>
<b>Operating profit</b>	6	<b>1,609,920</b>	1,514,143
Finance costs	7	(239,523)	(177,203)
Share of results of associates		<u>291,389</u>	<u>30,387</u>
<b>Profit before income tax</b>		<b>1,661,786</b>	1,367,327
Income tax expense	8	<u>(377,818)</u>	<u>(381,544)</u>
<b>Profit for the period</b>		<b><u>1,283,968</u></b>	<b><u>985,783</u></b>

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2019</b>	2018
		<b>(unaudited)</b>	(unaudited)
<i>Notes</i>		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Profit for the period attributable to:</b>			
	Owners of the Company	<b>881,080</b>	645,810
	Non-controlling interests	<b>402,888</b>	339,973
		<u><b>1,283,968</b></u>	<u>985,783</u>
<b>Earnings per share for profit attributable to</b>			
<b>owners of the Company during the period</b>			
	9	<i>HK cents</i>	<i>HK cents</i>
	Basic	<u><b>54.83</b></u>	<u>40.14</u>
	Diluted	<u><b>54.83</b></u>	<u>40.14</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit for the period</b>	<b>1,283,968</b>	985,783
<b>Other comprehensive income</b>		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	(643,847)	(458,039)
– Recycling of currency translation differences upon disposal of subsidiaries	(313)	(5,363)
<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	10,227	–
– Share of other comprehensive income of associates	(6,617)	–
	(640,550)	(463,402)
<b>Other comprehensive loss for the period, net of tax</b>		
	<b>643,418</b>	522,381
<b>Total comprehensive income for the period</b>	<b>643,418</b>	522,381
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	392,782	313,226
Non-controlling interests	250,636	209,155
	<b>643,418</b>	522,381

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September	31 March
		2019	2019
		(unaudited)	(audited)
Notes		HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
	Property, plant and equipment	2,081,026	2,019,900
	Prepaid land lease payments	3                   –	901,423
	Right-of-use assets	3                   1,102,841	–
	Investment properties	1,014,136	912,335
	Interests in associates	2,080,757	676,035
	Financial assets at fair value through other comprehensive income	365,730	349,225
	Goodwill	1,241,981	1,220,394
	Other intangible assets	16,120,815	15,293,235
	Prepayments, deposits and other receivables	1,065,881	1,500,105
	Contract assets	837,060	540,779
	Receivables under service concession arrangements	1,037,845	1,079,365
		26,948,072	24,492,796
		26,948,072	24,492,796
<b>Current assets</b>			
	Properties under development	1,353,107	1,273,890
	Properties held for sale	782,650	816,189
	Inventories	640,618	530,990
	Contract assets	205,365	233,484
	Receivables under service concession arrangements	61,360	61,967
	Trade and bills receivables	11           1,206,031	1,242,864
	Financial assets at fair value through profit or loss	393,903	489,340
	Due from non-controlling equity holders of subsidiaries	345,169	288,194
	Due from associates	130,469	227,416
	Prepayments, deposits and other receivables	1,596,144	1,549,667
	Pledged deposits	746,287	644,524
	Cash and cash equivalents	4,011,202	3,973,315
		11,472,305	11,331,840
		11,472,305	11,331,840

		As at	
		30 September 2019 (unaudited) HK\$'000	31 March 2019 (audited) HK\$'000
	Notes		
<b>Current liabilities</b>			
Lease liabilities	3	36,747	–
Contract liabilities		891,133	648,134
Trade and bills payables	12	2,862,825	2,410,098
Accrued liabilities, deposits received and other payables		2,328,003	1,979,082
Due to associates		48,106	46,093
Borrowings		3,263,156	3,437,483
Due to non-controlling equity holders of subsidiaries		206,862	219,048
Provision for tax		1,378,802	1,278,874
		<u>11,015,634</u>	<u>10,018,812</u>
<b>Net current assets</b>		<u>456,671</u>	<u>1,313,028</u>
<b>Total assets less current liabilities</b>		<u>27,404,743</u>	<u>25,805,824</u>
<b>Non-current liabilities</b>			
Borrowings		12,489,993	11,494,131
Lease liabilities	3	170,728	–
Contract liabilities		268,249	273,133
Due to non-controlling equity holders of subsidiaries		196,663	27,784
Deferred government grants		208,510	225,583
Deferred tax liabilities		897,442	882,723
		<u>14,231,585</u>	<u>12,903,354</u>
<b>Net assets</b>		<u>13,173,158</u>	<u>12,902,470</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		16,040	16,089
Reserves		8,091,648	7,954,377
		<u>8,107,688</u>	<u>7,970,466</u>
<b>Non-controlling interests</b>		<u>5,065,470</u>	<u>4,932,004</u>
<b>Total equity</b>		<u>13,173,158</u>	<u>12,902,470</u>

Notes:

## 1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2019 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 2019, 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 2019 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 2019.

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

		<b>Effective for accounting periods beginning on or after</b>
Annual Improvements Project	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019

The impacts of the adoption of HKFRS 16 are disclosed in note 3 below. The amendments to standards and interpretations adopted by the Group did not have any impact on the Group’s accounting policies.

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



### 3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 “Leases” (“HKFRS 16”) on the Group’s financial information and the new accounting policies that have been applied from 1 April 2019.

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparative information, as permitted under the specific transitional provisions under HKFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 April 2019.

#### (a) Adjustments recognised on the adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.95%.

All the right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the condensed consolidated statement of financial position as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The following is a reconciliation of the opening effect on adoption of HKFRS 16 as at 1 April 2019:

<b>Condensed consolidated statement of financial position (extract)</b>	<b>Right-of- use assets <i>HK\$’000</i></b>	<b>Prepaid land lease payments <i>HK\$’000</i></b>	<b>Lease liabilities - current portion <i>HK\$’000</i></b>	<b>Lease liabilities - non-current portion <i>HK\$’000</i></b>
At 31 March 2019, as previously reported (Audited)	–	901,423	–	–
Reclassification to right-of-use assets on adoption of HKFRS 16	901,423	(901,423)	–	–
Adjustment on adoption of HKFRS 16	230,248	–	40,361	189,887
At 1 April 2019, as restated (Unaudited)	<u>1,131,671</u>	<u>–</u>	<u>40,361</u>	<u>189,887</u>

The Group had operating lease commitments of HK\$374,674,000 as disclosed as at 31 March 2019 and on adoption of HKFRS 16, the Group recognised lease liabilities of HK\$230,248,000 as at 1 April 2019. The key differences between the disclosed operating lease commitments and the recognised lease liabilities have mainly arisen from the discounting impact on operating lease commitments in using the lessee's incremental borrowing rate as of 1 April 2019, additional lease liabilities recognised under the scope of HKFRS 16 and exclusion of short-term and low-value leases recognised on a straight-line basis as expense.

The recognised right-of-use assets relate to the following types of assets:

	<b>30 September 2019</b>	<b>1 April 2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land and land use right	897,710	901,423
Buildings	<u>205,131</u>	<u>230,248</u>
Total right-of-use assets	<u><u>1,102,841</u></u>	<u><u>1,131,671</u></u>

The change in accounting policy affected the right-of-use assets and lease liabilities, and both increased by HK\$230.2 million on 1 April 2019. In addition, prepaid land lease payments of HK\$901.4 million were reclassified to right-of-use assets on 1 April 2019. There was no material impact on retained earnings on 1 April 2019.

#### **PRACTICAL EXPEDIENTS APPLIED**

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- the use of recognition exemption to leases with a remaining lease term of 12 months or less at 1 April 2019.
- the use of recognition exemption to leases for which the underlying asset is of low value.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- the use of hindsight in determining lease term at the date of initial application.

**(b) The Group's leasing activities and how these are accounted for**

The Group leases certain of its leasehold land, properties and plant and machinery. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of the financial year ended 31 March 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects such option of the lessee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate (being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions) is used.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

*Critical judgements in determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

#### 4. 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	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
<b>Revenue:</b>		
Water supply operation services	1,248,212	1,128,073
Water supply connection income	761,578	691,441
Water supply construction services	1,536,915	1,299,785
Sewage treatment and drainage operation services	174,406	147,016
Sewage treatment and water environmental renovation construction services	351,808	654,875
Sales of properties	88,205	73,399
Sales of goods	12,111	7,077
Hotel and rental income	48,372	47,163
Finance income	21,951	12,987
Handling income	15,333	11,438
Others	95,819	68,566
Total	<u>4,354,710</u>	<u>4,141,820</u>
<b>Other income:</b>		
Interest income	56,807	41,787
Government grants and subsidies	105,537	26,307
Amortisation of deferred government grants	4,703	2,174
Gain on disposal of property, plant and equipment, net	6,544	–
Dividend income from financial assets	10,432	8,833
Miscellaneous income	23,486	24,573
Total	<u>207,509</u>	<u>103,674</u>

## 5. 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 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 comprise salaries and wages, operating leases and other operating expenses of the Company and the investment holding companies.

**For the period ended 30 September 2019**

	City water supply operation and construction (unaudited) <i>HK\$'000</i>	Environmental protection (unaudited) <i>HK\$'000</i>	Property development and investment (unaudited) <i>HK\$'000</i>	All other segments (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
<b>Revenue</b>					
From external customers	3,589,694	590,965	106,230	67,821	4,354,710
From inter-segment	-	-	-	-	-
<b>Segment revenue</b>	<u>3,589,694</u>	<u>590,965</u>	<u>106,230</u>	<u>67,821</u>	<u>4,354,710</u>
<b>Segment profit</b>	<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)	291,389
Profit before income tax					1,661,786
Income tax expense					(377,818)
<b>Profit for the period</b>					<u>1,283,968</u>
<b>Total segment assets</b>	<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>

For the period ended 30 September 2018

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

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.



## 6. OPERATING PROFIT

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	35,142	25,804
Depreciation of right-of-use assets	29,205	–
Amortisation of prepaid land lease payments	–	10,601
Amortisation of other intangible assets	239,691	198,248
	<u>239,691</u>	<u>198,248</u>

## 7. FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	311,240	192,690
Interest on other loans	80,576	110,048
Interest on lease liabilities	5,354	–
	<u>397,170</u>	<u>302,738</u>
Total borrowing costs	397,170	302,738
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(157,647)	(125,535)
	<u>239,523</u>	<u>177,203</u>

## 8. 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 (2018: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current income tax:		
– the PRC	333,312	344,652
Deferred tax	44,506	36,892
Total income tax expense	377,818	381,544

## 9. 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\$881,080,000 (2018: HK\$645,810,000) and the weighted average of 1,606,933,000 (2018: 1,608,901,000) ordinary shares in issue during the period.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 30 September 2019 and 2018.

## 10. DIVIDEND

### Dividend attributable to the interim period

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interim dividend		
– HK\$0.14 (2018: HK\$0.12) per ordinary share	224,564	193,068

The interim dividend proposed after the reporting date for the financial period ended 30 September 2019 and 2018 were not recognised as a liability at the reporting date.

## 11. TRADE AND BILLS RECEIVABLES

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

	As at	
	30 September 2019 (unaudited) <i>HK\$'000</i>	31 March 2019 (audited) <i>HK\$'000</i>
0 to 90 days	566,744	612,672
91 to 180 days	99,146	167,899
Over 180 days	540,141	462,293
	<u>1,206,031</u>	<u>1,242,864</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.

## 12. TRADE AND BILLS PAYABLES

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

	As at	
	30 September 2019 (unaudited) <i>HK\$'000</i>	31 March 2019 (audited) <i>HK\$'000</i>
0 to 90 days	1,751,118	1,678,905
91 to 180 days	244,447	308,239
Over 180 days	867,260	422,954
	<u>2,862,825</u>	<u>2,410,098</u>

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

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK\$0.14 per ordinary share (2018: HK\$0.12 per ordinary share) for the six months ended 30 September 2019. The interim dividend is expected to be paid on or about Friday, 31 January 2020 to the shareholders whose names appear on the register of members on Wednesday, 18 December 2019.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 16 December 2019 to Wednesday, 18 December 2019 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 2019, 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, 13 December 2019.

## **BUSINESS REVIEW**

The Group's total revenue continuously increased from HK\$4,141.8 million for the six months ended 30 September 2018 to HK\$4,354.7 million for the six months ended 30 September 2019, representing a steady increase of 5.1%. 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\$4,001.4 million to HK\$4,180.7 million. This represented a steady and continuous growth of segments revenue by 4.5%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

(i) *Water Supply Business Analysis*

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

For the period under review, the revenue from city water supply operation and construction segment amounted to HK\$3,589.7 million (2018: HK\$3,166.8 million), representing a steady increase of 13.4% as compared with the last corresponding period. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,449.7 million (2018: HK\$1,242.7 million), representing a steady increase of 16.7% as compared with the last corresponding period. This was mainly because of increase in volume of water sold, procurement of more construction and connection work driven by the continuation of urban-rural integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the new water projects during the period.

(ii) *Environmental Protection Business Analysis*

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

For the period under review, the revenue from environmental protection segment amounted to HK\$591.0 million (2018: HK\$834.6 million), representing a significant decrease of 29.2% as compared with the last corresponding period. The environmental protection segment profit (including sewage treatment and drainage operating and construction, solid waste and hazardous waste business, environmental sanitation and water environment management) amounted to HK\$191.9 million (2018: HK\$295.0 million), representing a significant decrease of 34.9% 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\$106.2 million (2018: HK\$91.7 million). The total property business segment profit amounted to HK\$13.2 million (2018: HK\$17.2 million), representing a decrease of 23.3% as compared with the last corresponding period. This was mainly due to the decrease on the profit margin in sales of property projects in current period.

The Group acquired 600,000,000 ordinary shares of Kangda International Environmental Company Limited (“Kangda International”) at the price of HK\$2.00 per share, representing its 29.52% equity interest, at a total consideration of HK\$1.2 billion in April 2019. The audited net asset value per ordinary share of Kangda International attributable to the shareholders as at 31 December 2018 was approximately RMB2.02 (equivalent to approximately HK\$2.35). The shares of Kangda International are listed on the mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 6136) and it was accounted for as an associate of the Group during the period under review. During the period under review, the total contribution to the Group by Kangda International amounting to HK\$259.6 million, which comprised 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 share of post-acquisition results of Kangda International of HK\$44.8 million, was included in the share of results of associates.

For the corresponding period under review, the Group recorded a gain on disposal of subsidiaries amounted to HK\$6.1 million, which was mainly because of the disposal of 55% equity interest in 江西仙女湖旅游股份有限公司. The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing its core businesses in China.

## **PROSPECTS**

Although the global economy is slowing down, China’s economy is expected to maintain stable development. Given the healthy and rapid development of urbanisation in the country, there is a pressing need for the upgrading and capacity expansion of water infrastructure, thus creating huge and sustainable opportunities for the growth of water industry.

In the middle of this year, the State Council issued the “Regulations on Government Investments”, and the Ministry of Finance issued earlier this year the “Opinions on Promoting the Normative Development of Public-Private Partnership”. They call for further deepening of the reforms in government investment and financing systems, and clearly define the respective roles of government investments and social capital investments in public service infrastructures. With the increasing government support to private enterprises’ participation in public services, the Company is in a better position to invest in more market-oriented water projects and steadily improve the return of such projects.

Looking forward, the Group shall continue to expand its business through the long-term public-private partnership which has been actively promoted by the government. As to infrastructure and public services, it shall deepen cooperation with local governments, and make joint efforts to enhance its overall services capability in the value chain of urban water supply and water services as well as the efficiency and quality of its all-round services. As to the direction of future business development, the Group shall focus on the development of its core water supply business, and adhere to the two core development strategies, namely urban-rural water supply integration and supply-drainage integration. It shall accelerate the development of its value-added businesses of secondary water supply and direct drinking water, and improve the smart pipeline network system in order to enhance its core competitiveness and provide better services to the society and people. As a public utility company, the Group shall continue to generate stable cash flow and create higher returns for its shareholders.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2019, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$4,757.5 million (31 March 2019: HK\$4,617.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 65.7% (31 March 2019: 64.0%) as at 30 September 2019. The current ratio is 1.04 times (31 March 2019: 1.13 times) as at 30 September 2019. 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 2019, the Group has employed approximately 8,600 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 2019, 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 6 September 2019 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 2019 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 2019, the Company repurchased its own shares on the Stock Exchange as follows:

<b>Month/Year</b>	<b>Number of shares repurchased</b>	<b>Highest price per share HK\$</b>	<b>Lowest price per share HK\$</b>	<b>Aggregate consideration (excluding expenses) HK\$</b>
July 2019	3,758,000	7.46	6.99	27,008,000
August 2019	1,114,000	6.98	6.08	7,209,000

During the period ended 30 September 2019, the Company repurchased and cancelled a total of 4,872,000 ordinary shares of HK\$0.01 each in the capital of the Company. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the contributed surplus 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.

## AUDIT COMMITTEE

The Audit Committee which comprises the four independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2019 with the directors.

## **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, 27 November 2019

*As at the date of this announcement, 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 four independent non-executive Directors, being Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping and Ms. Zhou Nan.*