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 2017

KEY HIGHLIGHTS

- The Group recorded a revenue of HK$3,513.7 million, representing a steady increase of 16.3% from HK$3,020.0 million in last corresponding period.

- The revenue from city water supply operation and construction amounted to HK$2,920.2 million (2016: HK$2,644.8 million), representing an increase of 10.4% as compared with the last corresponding period. The relevant segment profit amounted to HK$1,125.9 million (2016: HK$917.2 million), representing a steady increase of 22.8% as compared with the last corresponding period.

- The revenue from sewage treatment and drainage operation and construction amounted to HK$374.0 million (2016: HK$247.9 million), representing a significant increase of 50.9% as compared with the last corresponding period. The relevant segment profit amounted to HK$163.0 million (2016: HK$79.7 million), representing a significant increase of 104.5% 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$3,294.2 million (2016: HK$2,892.7 million), representing an increase of 13.9% as compared with the last corresponding period. The relevant combined segment profit amounted to HK$1,288.9 million (2016: HK$996.8 million), representing a significant increase of 29.3% as compared with the last corresponding period.

- Excluding the effect of fair value gain on investment properties and change in fair value of derivative financial assets, the operating profit amounted to HK$1,343.5 million (2016: 955.0 million), representing a significant increase of 40.7% as compared with the last corresponding period.

* *For identification purpose only*

- Earnings before fair value gain on investment properties, change in fair value of derivative financial assets, interest, taxes, depreciation and amortisation which is calculated as operating profit before fair value gain on investment properties, change in fair value of derivative financial assets, depreciation and amortisation amounted to HK$1,540.7 million, representing a significant increase of 34.6% from HK$1,144.3 million in last corresponding period.

- Profit for the period attributable to owners of the Company was HK$537.0 million, representing a significant increase of 25.1% from HK$429.1 million in last corresponding period.

- Basic earnings per share for the period was HK34.93 cents, representing a steady increase of 22.9% from HK28.43 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 HK8 cents per share (2016: HK4 cents per share), representing a significant increase of 100% as compared with the last corresponding period.

- The Company intends to follow a progressive dividend policy. In view of the steady growth in return generated by our water assets and the Group's intention to dispose of its non-core assets in the coming few years and to use the proceeds from such possible disposals for its core businesses and/or dividend payment, the Company intends to increase its dividend payout ratio to not less than 30% of its basic earnings per share starting from the current financial year, subject to the financial performance and future funding needs of the Group.

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 2017, together with the comparative figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2017	2016
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**3,513,685**	3,020,044
Cost of sales		**(1,977,797)**	(1,773,554)
Gross profit		**1,535,888**	1,246,490
Other income	3	**157,888**	102,413
Selling and distribution costs		**(86,005)**	(74,965)
Administrative expenses		**(286,703)**	(305,701)
Equity-settled share options expenses		**(592)**	(13,273)
Fair value gain on investment properties		**–**	247,619
Change in fair value of derivative financial assets		**(26,283)**	(19,533)
Gain on disposal of a subsidiary		**23,020**	–
Operating profit	5	**1,317,213**	1,183,050
Finance costs	6	**(158,717)**	(135,568)
Share of results of associates		**29,073**	(82,395)
Profit before income tax		**1,187,569**	965,087
Income tax expense	7	**(329,966)**	(293,105)
Profit for the period		**857,603**	671,982

	Notes	Six months ended 30 September **2017** **(unaudited)** ***HK$'000***	2016 (unaudited) *HK$'000*
Profit for the period attributable to:			
Owners of the Company		**537,015**	429,052
Non-controlling interests		**320,588**	242,930
		857,603	671,982
Earnings per share for profit attributable to owners of the Company during the period	8	***HK cents***	*HK cents*
Basic		**34.93**	28.43
Diluted		**34.46**	28.19

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period	**857,603**	671,982
Other comprehensive income		
Items that have been or may be reclassified subsequently to profit or loss:		
– Change in fair value of available-for-sale financial assets	**(13,749)**	2,176
– Currency translation	**241,489**	(259,556)
– Share of other comprehensive income of associates	**–**	(5,910)
– Recycling of currency translation differences upon disposal of subsidiaries	**5,056**	9,516
– Recycling of reserves upon disposal of available-for-sale financial assets	**(9,787)**	–
Other comprehensive income/(loss) for the period, net of tax	**223,009**	(253,774)
Total comprehensive income for the period	**1,080,612**	418,208
Total comprehensive income attributable to:		
Owners of the Company	**676,021**	292,403
Non-controlling interests	**404,591**	125,805
	1,080,612	418,208

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2017	31 March 2017
		(unaudited)	(audited)
	Notes	***HK$'000***	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**1,562,382**	1,126,821
Prepaid land lease payments		**796,398**	733,783
Investment properties		**1,321,529**	1,172,637
Interests in associates		**592,991**	635,473
Available-for-sale financial assets		**291,836**	339,894
Goodwill		**742,242**	686,427
Other intangible assets		**11,115,547**	9,629,813
Prepayments, deposits and other receivables		**684,778**	624,302
Receivables under service concession arrangements		**915,235**	740,199
		18,022,938	15,689,349
Current assets			
Properties under development		**535,784**	690,083
Properties held for sale		**548,847**	288,694
Inventories		**346,175**	284,853
Trade and bills receivables	10	**957,050**	871,891
Receivables under service concession arrangements		**37,198**	36,783
Financial assets at fair value through profit or loss		**351,372**	224,738
Due from non-controlling equity holders of subsidiaries		**236,923**	250,582
Due from associates		**519,359**	409,091
Prepayments, deposits and other receivables		**2,183,113**	1,743,357
Derivative financial assets		**19,015**	45,298
Pledged deposits		**602,940**	783,013
Cash and cash equivalents		**2,569,171**	4,313,977
		8,906,947	9,942,360

	Notes	As at 30 September 2017 (unaudited) HK$'000	31 March 2017 (audited) HK$'000
Current liabilities			
Trade and bills payables	11	**1,471,041**	1,097,051
Accrued liabilities, deposits received and other payables		**2,313,525**	2,101,605
Due to associates		**15,530**	34,289
Borrowings		**3,678,229**	3,205,875
Due to non-controlling equity holders of subsidiaries		**289,821**	290,634
Provision for tax		**774,770**	662,899
		8,542,916	7,392,353
Net current assets		**364,031**	2,550,007
Total assets less current liabilities		**18,386,969**	18,239,356
Non-current liabilities			
Borrowings		**7,233,438**	8,123,092
Deposits received		**243,483**	231,844
Due to associates		**4,800**	12,396
Due to non-controlling equity holders of subsidiaries		**32,941**	32,183
Deferred government grants		**146,604**	145,412
Deferred tax liabilities		**799,054**	731,496
		8,460,320	9,276,423
Net assets		**9,926,649**	8,962,933
EQUITY			
Equity attributable to owners of the Company			
Share capital		**15,939**	15,171
Reserves		**6,269,394**	5,600,133
		6,285,333	5,615,304
Non-controlling interests		**3,641,316**	3,347,629
Total equity		**9,926,649**	8,962,933

Notes:

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2017 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 2017, 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 2017 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 2017.

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

		Effective for accounting periods beginning on or after
Annual improvements project	Annual improvements 2014-2016 cycle	1 January 2017
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses	1 January 2017

The adoption of the new and amendments to HKFRSs has had no significant effect on 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	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Revenue:		
Water supply operation services	**948,930**	831,054
Water supply connection income	**551,329**	435,293
Water supply construction services	**1,372,243**	1,335,500
Sewage treatment and drainage operation services	**123,330**	120,335
Sewage treatment construction services	**238,762**	117,145
Sales of properties	**163,831**	–
Sales of goods	**17,523**	118,551
Hotel and rental income	**31,967**	11,595
Finance income	**11,368**	10,414
Handling income	**10,389**	11,826
Others	**44,013**	28,331
Total	**3,513,685**	3,020,044
Other income:		
Interest income	**71,321**	58,027
Government grants and subsidies	**55,456**	23,148
Amortisation of deferred government grants	**2,174**	1,501
Gain on disposal of prepaid land lease payments	**4,019**	–
Dividend income from financial assets	**8,494**	7,904
Miscellaneous income	**16,424**	11,833
Total	**157,888**	102,413

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" segment, involves the provision of water supply, sewage treatment and drainage operation and construction services; and

(ii) "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". "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 assets, finance costs, share of results of associates, corporate income, corporate expense, income tax expense, gain on disposal of a subsidiary and equity-settled share options expenses are excluded from segment results.

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

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

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

For the period ended 30 September 2017

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

For the 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$'000*	All other segments (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Revenue					
From external customers	2,644,759	247,894	10,422	116,969	3,020,044
From inter-segment	–	–	–	–	–
Segment revenue	2,644,759	247,894	10,422	116,969	3,020,044
Segment profit/(loss)	917,173	79,665	247,861	(3,958)	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 assets					(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	1,106,737	16,756,477

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.

"Concrete related products and services" segment has been combined to "all other segments" this period. Certain comparative figures of segment information were therefore restated.

5. OPERATING PROFIT

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Depreciation	**24,996**	21,696
Amortisation of prepaid land lease payments	**9,819**	7,105
Amortisation of other intangible assets	**162,347**	160,565

6. FINANCE COSTS

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**144,556**	116,709
Interest on other loans	**115,061**	60,694
Total borrowing costs	**259,617**	177,403
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	**(100,900)**	(41,835)
	158,717	135,568

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 (2016: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current income tax:		
– the PRC	**287,606**	194,839
Deferred tax	**42,360**	98,266
Total income tax expense	**329,966**	293,105

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$537,015,000 (2016: HK$429,052,000) and the weighted average of 1,537,599,506 (2016: 1,509,412,660) 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 period ended 30 September 2017 and 2016, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK$537,015,000 (2016: HK$429,052,000) and on the weighted average of 1,558,520,292 (2016: 1,522,162,718) ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,537,599,506 (2016: 1,509,412,660) used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 20,920,786 (2016: 12,750,058).

9. DIVIDENDS

Dividends attributable to the interim period

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend		
– HK$0.08 (2016: HK$0.04) per ordinary share	**127,512**	60,057

The interim dividend proposed after the reporting date for the financial period ended 30 September 2017 and 2016 have not been recognised as a liability at the reporting date.

10. TRADE AND BILLS RECEIVABLES

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

	As at	
	30 September	31 March
	2017	2017
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 to 90 days	**457,528**	345,031
91 to 180 days	**150,590**	164,691
Over 180 days	**348,932**	362,169
	957,050	871,891

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.

Trade receivables that were past due but not impaired relate to customers that have good track records 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. 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 trade and bills payables based on invoice dates is as follows:

	As at	
	30 September 2017	31 March 2017
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 to 90 days	**804,107**	630,418
91 to 180 days	**310,986**	135,966
Over 180 days	**355,948**	330,667
	1,471,041	1,097,051

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

12. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting date, disposal of the Group's interests in 143,231,135 ordinary shares in China City Infrastructure Group Limited, whose ordinary shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 2349), at the price of HK$0.43 per share, amounting to a total consideration of approximately HK$61,589,000 was completed.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.08 per ordinary share for the six months ended 30 September 2017 (2016: HK$0.04 per ordinary share). The interim dividend is expected to be paid on or about Friday, 2 February 2018 to the shareholders whose names appear on the register of members on Wednesday, 20 December 2017.

BUSINESS REVIEW

The Group's total revenue increased from HK$3,020.0 million for the six months ended 30 September 2016 to HK$3,513.7 million for the six months ended 30 September 2017, representing a steady increase of 16.3%. The Group continued its strategy to focus on core business. For the period under review, the total revenue attributable to the "Water" segment amounted to HK$3,294.2 million, which represented approximately 93.8% of the total revenue. For the corresponding 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. This 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$2,920.2 million (2016: HK$2,644.8 million), representing an increase of 10.4% 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$1,125.9 million (2016: HK$917.2 million), representing a steady increase of 22.8% 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 amounted to HK$374.0 million (2016: HK$247.9 million), representing a significant increase of 50.9% 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$163.0 million (2016: HK$79.7 million), representing a significant increase of 104.5% as compared with the last corresponding period. This was mainly because of procurement of more construction services in current period.

(iii) Property Business Analysis

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

For the period under review, the revenue from the property business segment amounted to HK$178.6 million (2016: HK$10.4 million). The total property business segment profit amounted to HK$36.8 million (2016: HK$247.9 million), representing a decrease of 85.2% as compared with the last corresponding period, which was mainly because the fair value gain on investment properties of HK$247.6 million was recorded in last corresponding period.

For the period under review, the Group disposed of the entire interest in 長沙意峰房地產開發有限公司 and recorded a gain on disposal of a subsidiary amounted to HK$23.0 million. For the corresponding period under review, the Group recorded a loss on share of results of China City Infrastructure Group Limited, in an amount of HK$108.2 million. The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing its core businesses in China.

PROSPECTS

During the period under review, the Group has been working closely with the local governments of the PRC, and with our superiority in construction, operation and management of water supply and sewage treatment businesses through all the years, we continuously enhance our efficiency, quality and services of water supply and extend our business coverage. Benefit from the refined management and improved operation through all the years, our water assets have entered gradually into the mature stage and the returns thereof are realising a steady growth.

During the period of the "Thirteenth Five Year Plans", the central government has established specific plans for the urban-rural integrated water supply projects. It aimed to intensify the reform for market-oriented water rights and water price, and optimise the formation mechanism of water price and integrated management of water resources. It is expected that a market-oriented pricing mechanism of water price shall drive the diversification of investment entities in water industry and market-orientation of capital operation, as well as accelerating urban-rural integrated construction, co-ordination of regional water supply and integration of areas of water resources, specifically, the increasing demand from governments at various levels the investment and construction of professionalised green water infrastructures and fine operation and services, which provide huge opportunities for the water market.

Looking ahead, the Group will fully grasp the opportunities of the industry. We will uphold our business vision of "Water-Oriented, Kindness to Society", develop in a sustainable way while striving for steady progress, make the best use of the base and advantages of Group's existing businesses in various cities as well as our internal financial resources, so as to develop the urban-rural integrated projects and supply-drainage integrated projects, deepen geographical expansion, accelerate the development of our core business and merger and acquisition, continuously enhance our internal management, improve the Group's core competitiveness, provide quality services to the public, as well as maximising returns for our shareholders.

The Company intends to follow a progressive dividend policy. In view of the steady growth in return generated by our water assets and the Group's intention to dispose of its non-core assets in the coming few years and to use the proceeds from such possible disposals for its core businesses and/or dividend payment, the Company intends to increase its dividend payout ratio to not less than 30% of its basic earnings per share starting from the current financial year, subject to the financial performance and future funding needs of the Group.

CAPITAL RAISING

During the period ended 30 September 2017, the subscription rights attaching to 32,700,000 and 68,000,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$3.50 and HK$3.60 per share respectively, resulting in the issue of aggregate of 100,700,000 shares of HK$0.01 each for a total cash consideration of approximately HK$359,250,000 (before expenses).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2017, the Group has total cash and deposits balances of approximately HK$3,172.1 million (31 March 2017: HK$5,097.0 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 63.1% (31 March 2017: 65.0%) as at 30 September 2017. The current ratio is 1.04 times (31 March 2017: 1.34 times) as at 30 September 2017. The decrease in current ratio is mainly due to repayment of long-term loans with higher interest rate and classification of long-term loan with repayment option amounting to USD60 million (approximately HK$468 million) from non-current liability into current liability. The Group will closely monitor and balance its loan portfolio in order to improve its current ratio.

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 2017, the Group has employed approximately 7,400 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 2017, 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 1 September 2017 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 2017 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 2017, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/Year	Number of shares repurchased	Highest price per share *HK$*	Lowest price per share *HK$*	Aggregate consideration (excluding expenses) *HK$*
April 2017	3,282,000	5.22	5.05	16,902,000
May 2017	5,384,000	5.25	4.99	27,503,000
July 2017	3,200,000	4.27	4.19	13,505,000
August 2017	11,984,000	4.54	4.25	52,376,000

During the period ended 30 September 2017, the Company repurchased and cancelled a total of 23,850,000 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 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 Monday, 18 December 2017 to Wednesday, 20 December 2017 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 2017, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 15 December 2017.

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 2017 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, 30 November 2017

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 Mr. Chau Kam Wing, Mr. Ong King Keung, Mr. Siu Chi Ming and Ms. Ho Ping.