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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 2018

KEY HIGHLIGHTS

- The Group recorded a revenue of HK$4,141.8 million, representing a steady increase of 17.9% from HK$3,513.7 million in last corresponding period.

- Revenue composition of city water supply operation and construction segment has been optimised. Revenue contribution from water supply operation services and water supply connection income amounted to HK$1,819.5 million (2017: HK$1,500.3 million), representing a steady increase of 21.3% as compared with the last corresponding period. Revenue contribution from water supply construction services amounted to HK$1,299.8 million (2017: HK$1,372.2 million), representing a slight decrease of 5.3% as compared with the last corresponding period. The total revenue from city water supply operation and construction segment amounted to HK$3,166.8 million (2017: HK$2,920.2 million), representing a steady increase of 8.4% as compared with the last corresponding period. The relevant segment profit amounted to HK$1,242.7 million (2017: HK$1,125.9 million), representing a steady increase of 10.4% as compared with the last corresponding period.

- "Environmental protection" is used to replace "Sewage treatment and drainage operation and construction" in the segment reporting of this period to conform with the Group's business development to seek a separate listing of the Group's environmental protection business on a recognised stock exchange. The revenue from environmental protection segment amounted to HK$834.6 million (2017: HK$374.0 million), representing a significant increase of 123.2% as compared with the last corresponding period. The relevant segment profit amounted to HK$295.0 million (2017: HK$163.0 million), representing a significant increase of 81.0% as compared with the last corresponding period.

- The combined revenue from city water supply operation and construction and environmental protection segments amounted to HK$4,001.4 million (2017: HK$3,294.2 million), representing a steady increase of 21.5% as compared with the last corresponding period. The relevant combined segment profit amounted to HK$1,537.6 million (2017: HK$1,288.9 million), representing a steady increase of 19.3% as compared with the last corresponding period.

* *For identification purpose only*

- Earnings before interest, taxes, depreciation and amortisation which is calculated as operating profit before depreciation and amortisation amounted to HK$1,748.8 million, representing a steady increase of 15.5% from HK$1,514.4 million in last corresponding period.

- Profit for the period attributable to owners of the Company was HK$645.8 million, representing a steady increase of 20.3% from HK$537.0 million in last corresponding period.

- Basic earnings per share for the period was HK40.14 cents, representing a steady increase of 14.9% from HK34.93 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 HK12 cents per share (2017: HK8 cents per share), representing a significant increase of 50% 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 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2018	2017
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	4	**4,141,820**	3,513,685
Cost of sales		**(2,321,664)**	(1,977,797)
Gross profit		**1,820,156**	1,535,888
Other income	4	**103,674**	157,888
Selling and distribution costs		**(91,668)**	(86,005)
Administrative expenses		**(324,090)**	(286,703)
Equity-settled share options expenses		**–**	(592)
Change in fair value of derivative financial assets		**–**	(26,283)
Gain on disposal of subsidiaries		**6,071**	23,020
Operating profit	6	**1,514,143**	1,317,213
Finance costs	7	**(177,203)**	(158,717)
Share of results of associates		**30,387**	29,073
Profit before income tax		**1,367,327**	1,187,569
Income tax expense	8	**(381,544)**	(329,966)
Profit for the period		**985,783**	857,603

	Notes	Six months ended 30 September **2018** **(unaudited)** ***HK$'000***	2017 (unaudited) *HK$'000*
Profit for the period attributable to:			
Owners of the Company		**645,810**	537,015
Non-controlling interests		**339,973**	320,588
		985,783	857,603
Earnings per share for profit attributable to owners of the Company during the period	9	***HK cents***	*HK cents*
Basic		**40.14**	34.93
Diluted		**40.14**	34.46

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	As at 30 September 2018 (unaudited) HK$'000	As at 31 March 2018 (audited) HK$'000
Current liabilities			
Trade and bills payables	12	**2,357,773**	1,625,896
Accrued liabilities, deposits received and other payables		**3,091,504**	2,306,224
Due to associates		**54,228**	29,489
Borrowings		**3,457,068**	3,450,300
Due to non-controlling equity holders of subsidiaries		**259,492**	230,417
Provision for tax		**1,135,444**	1,006,826
		10,355,509	8,649,152
Net current assets		**765,811**	358,809
Total assets less current liabilities		**21,963,359**	19,940,135
Non-current liabilities			
Borrowings		**9,285,352**	7,431,752
Deposits received		**233,352**	246,633
Due to associates		**742**	1,201
Due to non-controlling equity holders of subsidiaries		**32,941**	77,296
Deferred government grants		**148,728**	156,336
Deferred tax liabilities		**876,146**	872,508
		10,577,261	8,785,726
Net assets		**11,386,098**	11,154,409
EQUITY			
Equity attributable to owners of the Company			
Share capital		**16,089**	16,089
Reserves		**7,197,836**	7,152,495
		7,213,925	7,168,584
Non-controlling interests		**4,172,173**	3,985,825
Total equity		**11,386,098**	11,154,409

Notes:

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 March 2018 except for the adoption of the new standards and amendments to HKFRSs issued by the HKICPA that have become effective for accounting period beginning on 1 April 2018.

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

4. REVENUE AND OTHER INCOME

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

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

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" is used to replace "Sewage treatment and drainage operation and construction" in the segment reporting of this period to conform with the Group's business development to seek a separate listing of the Group's environmental protection business on a recognised stock exchange. "Environmental protection" involves the provision of sewage treatment and drainage operation and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management; and

(iii) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

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

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

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

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

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

For the period ended 30 September 2018

	City water supply operation and construction (unaudited) *HK$'000*	Environmental protection (unaudited) *HK$'000*	Property development and investment (unaudited) *HK$'000*	All other segments (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Revenue					
From external customers	3,166,836	834,557	91,722	48,705	4,141,820
From inter-segment	–	–	–	–	–
Segment revenue	3,166,836	834,557	91,722	48,705	4,141,820
Segment profit	1,242,658	294,983	17,212	2,269	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)
Profit for the period					985,783
Total segment assets	17,557,694	2,783,479	3,125,607	2,017,136	25,483,916

For the period ended 30 September 2017

	City water supply operation and construction (unaudited) *HK$'000*	Environmental protection (unaudited) *HK$'000*	Property development and investment (unaudited) *HK$'000*	All other segments (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Revenue					
From external customers	2,920,214	373,964	178,649	40,858	3,513,685
From inter-segment	–	–	–	–	–
Segment revenue	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

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

7. FINANCE COSTS

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

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 (2017: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

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

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$645,810,000 (2017: HK$537,015,000) and the weighted average of 1,608,900,859 (2017: 1,537,599,506) ordinary shares in issue during the period.

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

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

10. DIVIDENDS

Dividends attributable to the interim period

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

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

11. 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
	2018	2018
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 to 90 days	**946,807**	525,625
91 to 180 days	**168,318**	129,376
Over 180 days	**449,237**	400,013
	1,564,362	1,055,014

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 2018	31 March 2018
	(unaudited)	(audited)
	HK$'000	*HK$'000*
0 to 90 days	**1,467,003**	1,084,886
91 to 180 days	**435,528**	194,876
Over 180 days	**455,242**	346,134
	2,357,773	1,625,896

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 December 2018 to Wednesday, 19 December 2018 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the interim dividend for the six months ended 30 September 2018, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 14 December 2018.

BUSINESS REVIEW

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

(i) Water Supply Business Analysis

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

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

(ii) Environmental Protection Business Analysis

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

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

(iii) Property Business Analysis

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

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

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

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

PROSPECTS

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

HUMAN RESOURCES

As at 30 September 2018, the Group has employed approximately 8,000 staff. Most of them are stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

CORPORATE GOVERNANCE

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code throughout the six months ended 30 September 2018 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

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

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

AUDIT COMMITTEE

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

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, 29 November 2018

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.