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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 RESULTS FOR THE YEAR ENDED 31 MARCH 2017

KEY HIGHLIGHTS

- The Group recorded a revenue of HK$5,707.9 million, representing a significant increase of 20.4% from HK$4,739.9 million in last year.
- The revenue from city water supply operation and construction amounted to HK$4,960.8 million (2016: HK$4,000.3 million), representing a significant increase of 24.0% as compared with the last corresponding year. The relevant segment profit amounted to HK$1,846.6 million (2016: HK$1,468.1 million), representing a significant increase of 25.8% as compared with the last corresponding year.
- The revenue from sewage treatment and drainage operation and construction amounted to HK$552.9 million (2016: HK$339.0 million), representing a significant increase of 63.1% as compared with the last corresponding year. The relevant segment profit amounted to HK$207.8 million (2016: HK$184.1 million), representing an increase of 12.9% as compared with the last corresponding year.
- The combined revenue from city water supply operation and construction and sewage treatment and drainage operation and construction business amounted to HK$5,513.7 million (2016: HK$4,339.3 million), representing a significant increase of 27.1% as compared with the last corresponding year. The relevant combined segment profit amounted to HK$2,054.4 million (2016: HK$1,652.2 million), representing a significant increase of 24.3% as compared with the last corresponding year.
- Profit for the year attributable to owners of the Company was HK$853.6 million, representing a significant increase of 40.4% from HK$608.1 million in last year.
- Earnings before interest, taxes, depreciation and amortisation which is calculated as operating profit before depreciation and amortisation amounted to HK$2,601.9 million, representing a significant increase of 34.4% from HK$1,936.6 million in last year.
- Basic earnings per share for the year was HK56.72 cents, representing a significant increase of 40.7% from HK40.31 cents in last year.
- In consideration of the satisfactory results, the board of directors has proposed to pay the equity shareholders of the Company a final dividend of HK6 cents per share. Special final dividend of HK10 cents per share was proposed to mark the moving forward to the 15th anniversary of the Company engaged in the water business since 2003. Together with the interim dividend of HK4 cents per share, the total dividends for the year will be HK20 cents per share (2016: HK8 cents per share).

RESULTS

The Board of Directors (the "Directors") of China Water Affairs Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2017 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000* (Restated)
Revenue	3	**5,707,895**	4,739,902
Cost of sales		**(3,222,990)**	(2,641,967)
Gross profit		**2,484,905**	2,097,935
Other income	3	**242,448**	300,661
Selling and distribution costs		**(160,006)**	(123,257)
Administrative expenses		**(604,201)**	(571,757)
Other operating expenses		**(16,501)**	(27,506)
Equity-settled share options expenses		**(13,983)**	(47,982)
Fair value gain on investment properties		**316,457**	52,900
Fair value (loss)/gain on financial assets at fair value through profit or loss		**(225)**	8
Change in fair value of derivative financial assets		**(21,706)**	(32,948)
Loss on repurchase/redemption of convertible bonds		**–**	(33)
Gain/(loss) on disposal of subsidiaries		**43,905**	(1,488)
Operating profit	5	**2,271,093**	1,646,533
Finance costs	6	**(251,154)**	(170,824)
Share of results of associates		**(57,314)**	29,517
Profit before income tax		**1,962,625**	1,505,226
Income tax expense	7	**(583,279)**	(405,374)
Profit for the year		**1,379,346**	1,099,852

	Notes	**2017** **HK$'000**	2016 HK$'000 (Restated)
Profit for the year attributable to:			
Owners of the Company		**853,634**	608,112
Non-controlling interests		**525,712**	491,740
		1,379,346	1,099,852
Earnings per share for profit attributable to owners of the Company during the year	9	***HK cents***	*HK cents*
Basic		**56.72**	40.31
Diluted		**55.39**	40.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Profit for the year	**1,379,346**	1,099,852
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	**5,208**	6,823
– Currency translation	**(598,314)**	(190,065)
– Share of other comprehensive income of associates	**17,410**	(45,342)
– Recycling of currency translation differences upon disposal of subsidiaries	**23,679**	173
Other comprehensive loss for the year, net of tax	**(552,017)**	(228,411)
Total comprehensive income for the year	**827,329**	871,441
Total comprehensive income attributable to:		
Owners of the Company	**514,274**	438,289
Non-controlling interests	**313,055**	433,152
	827,329	871,441

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2017

	Notes	**31 March 2017** **HK$'000**	31 March 2016 HK$'000 (Restated)	1 April 2015 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment		**1,126,821**	589,755	618,155
Prepaid land lease payments		**733,783**	555,104	466,873
Investment properties		**1,172,637**	908,346	742,305
Interests in associates		**635,473**	1,333,517	1,363,334
Available-for-sale financial assets		**339,894**	226,767	163,875
Goodwill		**686,427**	663,668	239,212
Other intangible assets		**9,629,813**	8,041,454	6,526,120
Prepayments, deposits and other receivables		**624,302**	145,790	269,759
Receivables under service concession arrangements		**740,199**	540,740	349,401
		15,689,349	13,005,141	10,739,034
Current assets				
Properties under development		**690,083**	523,551	432,695
Properties held for sale		**288,694**	273,302	242,945
Inventories		**284,853**	288,606	301,217
Trade and bills receivables	10	**871,891**	1,083,551	655,776
Receivables under service concession arrangements		**36,783**	29,765	14,748
Financial assets at fair value through profit or loss		**224,738**	879	77,380
Due from non-controlling equity holders of subsidiaries		**250,582**	307,572	541,602
Due from associates		**409,091**	402,855	214,301
Prepayments, deposits and other receivables		**1,743,357**	970,239	925,290
Derivative financial assets		**45,298**	67,004	99,952
Pledged deposits		**783,013**	466,762	329,925
Cash and cash equivalents		**4,313,977**	2,551,836	1,500,748
		9,942,360	6,965,922	5,336,579

	Notes	**31 March 2017** *HK$'000*	31 March 2016 *HK$'000* (Restated)	1 April 2015 *HK$'000* (Restated)
Current liabilities				
Trade and bills payables	11	**1,097,051**	855,236	486,361
Accrued liabilities, deposits received and other payables		**2,101,605**	1,781,646	1,648,225
Due to associates		**34,289**	49,772	95,158
Borrowings		**3,205,875**	2,155,788	2,347,068
Due to non-controlling equity holders of subsidiaries		**290,634**	190,382	211,562
Provision for tax		**662,899**	524,147	393,869
Convertible bonds		**–**	–	28,969
Derivative financial liabilities		**–**	–	2,987
		7,392,353	5,556,971	5,214,199
Net current assets		**2,550,007**	1,408,951	122,380
Total assets less current liabilities		**18,239,356**	14,414,092	10,861,414
Non-current liabilities				
Borrowings		**8,123,092**	5,076,242	3,024,468
Deposits received		**231,844**	192,415	107,451
Due to associates		**12,396**	11,951	–
Due to non-controlling equity holders of subsidiaries		**32,183**	17,073	–
Deferred government grants		**145,412**	99,809	78,701
Deferred tax liabilities		**731,496**	570,160	438,088
		9,276,423	5,967,650	3,648,708
Net assets		**8,962,933**	8,446,442	7,212,706
EQUITY				
Equity attributable to owners of the Company				
Share capital		**15,171**	15,199	14,447
Reserves		**5,600,133**	5,248,173	4,523,527
		5,615,304	5,263,372	4,537,974
Non-controlling interests		**3,347,629**	3,183,070	2,674,732
Total equity		**8,962,933**	8,446,442	7,212,706

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, derivative financial assets, financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New standard and amendments to standards adopted by the Group

Annual improvements project	Annual improvements to HKFRSs 2012-2014 cycle
HKFRS 10, HKFRS 12 and HKFRS 28 (Amendments)	Investment entities: applying the consolidation exemption
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
HKAS 1 (Amendment)	Disclosure initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements

The adoption of these amendments to standards and interpretation have no significant effects on the Group's financial information.

3. REVENUE AND OTHER INCOME

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

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Revenue:		
Water supply operation services	**1,621,834**	1,447,242
Water supply connection income	**967,065**	979,241
Water supply construction services	**2,285,362**	1,495,970
Sewage treatment and drainage operation services	**249,352**	279,027
Sewage treatment construction services	**281,810**	39,211
Sales of goods	**173,660**	354,079
Hotel and rental income	**23,685**	28,875
Finance income	**21,162**	20,741
Handling income	**23,442**	16,496
Others	**60,523**	79,020
Total	**5,707,895**	4,739,902
Other income:		
Interest income	**122,704**	98,445
Government grants and subsidies[#]	**52,937**	67,291
Amortisation of deferred government grants	**4,200**	5,217
Gain on disposal of prepaid land lease payments	**–**	30,728
Dividend income from financial assets	**7,631**	17,432
Miscellaneous income	**54,976**	81,548
Total	**242,448**	300,661

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

4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, which are the Group's chief operating decision-maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(i) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment and drainage operation and construction" segments, 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.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

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

Segment assets exclude corporate assets (mainly comprises cash and cash equivalents), available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial assets and interests in associates. Segment liabilities exclude items such as taxation and other corporate liabilities (mainly comprises corporate borrowings).

No asymmetrical allocations have been applied to reportable segments.

For the year ended 31 March 2017

	City water supply operation and construction *HK$'000*	Sewage treatment and drainage operation and construction *HK$'000*	Property development and investment *HK$'000*	All other segments *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Revenue						
From external customers	**4,960,825**	**552,940**	**22,033**	**172,097**	**–**	**5,707,895**
From inter-segment	**–**	**–**	**-**	**–**	**–**	**–**
Segment revenue	**4,960,825**	**552,940**	**22,033**	**172,097**	**–**	**5,707,895**
Segment profit/(loss)	**1,846,595**	**207,760**	**315,991**	**(27,076)**	**–**	**2,343,270**
Unallocated corporate income						**130,533**
Unallocated corporate expense						**(210,701)**
Equity-settled share options expenses						**(13,983)**
Gain on disposal of subsidiaries						**43,905**
Fair value loss on financial assets at fair value through profit or loss						**(225)**
Change in fair value of derivative financial assets						**(21,706)**
Finance costs						**(251,154)**
Share of results of associates	**45,526**	**192**	**(103,818)**	**786**	**–**	**(57,314)**
Profit before income tax						**1,962,625**
Income tax expense						**(583,279)**
Profit for the year						**1,379,346**
Other segment information						
Additions of investment properties	**–**	**–**	**5,382**	**–**	**–**	**5,382**
Additions to other non-current segment assets	**2,090,621**	**36,966**	**400**	**45,581**	**–**	**2,173,568**
Amortisation of deferred government grants	**3,584**	**444**	**–**	**172**	**–**	**4,200**
Amortisation of other intangible assets	**(265,480)**	**(5,977)**	**–**	**–**	**–**	**(271,457)**
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	**(37,133)**	**(8,338)**	**(796)**	**(13,120)**	**–**	**(59,387)**
Property, plant and equipment written off	**(467)**	**–**	**–**	**–**	**–**	**(467)**
Gain on disposal of property, plant and equipment	**495**	**41**	**–**	**203**	**–**	**739**
Fair value gain on investment properties	**–**	**–**	**316,457**	**–**	**–**	**316,457**
Reversal of provision of doubtful debts	**–**	**573**	**–**	**164**	**–**	**737**

	City water supply operation and construction *HK$'000*	Sewage treatment and drainage operation and construction *HK$'000*	Property development and investment *HK$'000*	All other segments *HK$'000*	Total *HK$'000*
Segment assets	**12,513,212**	**1,677,259**	**2,227,725**	**1,511,173**	**17,929,369**
Other financial assets					**609,930**
Interests in associates	**395,598**	**8,985**	**98,287**	**132,603**	**635,473**
Other corporate assets					**6,456,937**
					25,631,709
Segment liabilities	**2,916,335**	**301,437**	**405,800**	**88,449**	**3,712,021**
Deferred tax liabilities					**731,496**
Provision for tax					**662,899**
Other corporate liabilities					**11,562,360**
					16,668,776

For the year ended 31 March 2016 (Restated)

	City water supply operation and construction (Restated) HK$'000	Sewage treatment and drainage operation and construction HK$'000	Property development and investment HK$'000	All other segments (Restated) HK$'000	Inter-segment elimination HK$'000	Total (Restated) HK$'000
Revenue						
From external customers	4,000,304	338,979	23,296	377,323	–	4,739,902
From inter-segment	2,764	36	–	23,093	(25,893)	–
Segment revenue	4,003,068	339,015	23,296	400,416	(25,893)	4,739,902
Segment profit	1,468,117	184,148	44,076	60,470	–	1,756,811
Unallocated corporate income						118,013
Unallocated corporate expense						(145,848)
Equity-settled share options expenses						(47,982)
Loss on disposal of a subsidiary						(1,488)
Fair value gain on financial assets at fair value through profit or loss						8
Change in fair value of derivative financial assets						(32,948)
Loss on repurchase/redemption of convertible bonds						(33)
Finance costs						(170,824)
Share of results of associates	20,460	246	(76,444)	85,255	–	29,517
Profit before income tax						1,505,226
Income tax expense						(405,374)
Profit for the year						1,099,852
Other segment information						
Additions of investment properties	–	–	4,707	–	–	4,707
Additions to other non-current segment assets	1,269,285	36,271	79,258	19,016	–	1,403,830
Amortisation of deferred government grants	4,742	433	–	42	–	5,217
Amortisation of other intangible assets	(220,807)	(6,341)	–	–	–	(227,148)
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	(24,527)	(8,569)	(8,730)	(21,081)	–	(62,907)
Property, plant and equipment written off	(7,840)	–	–	(1,971)	–	(9,811)
Loss on disposal of property, plant and equipment	(631)	(104)	–	(1,038)	–	(1,773)
Gain on disposal of prepaid land lease payments	30,728	–	–	–	–	30,728
Fair value gain on investment properties	–	–	52,900	–	–	52,900
(Provision)/reversal of provision of doubtful debts	(5,611)	–	–	27	–	(5,584)

	City water supply operation and construction (Restated)	Sewage treatment and drainage operation and construction	Property development and investment	All other segments (Restated)	Total (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	10,858,978	1,059,555	1,766,614	1,196,116	14,881,263
Other financial assets					294,650
Interests in associates	329,660	9,238	868,177	126,442	1,333,517
Other corporate assets					3,461,633
					19,971,063
Segment liabilities	2,494,241	116,288	120,337	210,138	2,941,004
Deferred tax liabilities					570,160
Provision for tax					524,147
Other corporate liabilities					7,489,310
					11,524,621

For the years ended 31 March 2017 and 2016, the Group did not depend on any single customers under each of the segments.

The Group's revenue from external customers and its non-current assets located in geographical areas other than the People's Republic of China ("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 year. Certain comparative figures of segment information were therefore restated.

5. OPERATING PROFIT

Profit from operation is arrived at after charging/(crediting):

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Cost of sales	**3,222,990**	2,641,967
Depreciation	**44,653**	45,355
Amortisation of prepaid land lease payments	**14,734**	17,552
Amortisation of other intangible assets	**271,457**	227,148
Operating leases in respect of		
– leasehold land and buildings	**17,072**	27,973
– other property, plant and equipment	**28,531**	33,429
Staff costs (including directors' emoluments):		
Salaries and wages	**521,780**	474,868
Pension scheme contribution	**78,130**	81,259
Equity-settled share options expenses	**13,983**	47,982
	613,893	604,109
(Gain)/loss on disposal of property, plant and equipment	**(739)**	1,773
Gain on disposal of prepaid land lease payments	**-**	(30,728)
Property, plant and equipment written off	**467**	9,811
(Reversal of provision)/provision of doubtful debts	**(737)**	5,584
Net foreign exchange gain	**118**	5,878

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans	**276,018**	208,646
Interest on other borrowings	**124,814**	119,944
Interest on convertible bonds	**–**	69
Total borrowing costs	**400,832**	328,659
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	**(149,678)**	(157,835)
	251,154	170,824

7. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2017 *HK$'000*	2016 *HK$'000* (Restated)
Current tax		
– the PRC	**424,100**	289,532
Deferred tax	**159,179**	115,842
Total income tax expense	**583,279**	405,374

8. DIVIDENDS

(a) Dividends attributable to the year

	2017 *HK$'000*	2016 *HK$'000*
Interim dividend of HK$0.04 (2016: HK$0.03) per ordinary share	**59,789**	45,596
Proposed final dividend of HK$0.06 (2016: HK$0.05) per ordinary share	**91,023**	75,993
Proposed special final dividend of HK$0.10 (2016: Nil) per ordinary share	**151,705**	–
	302,517	121,589

The final and special final dividends proposed after the reporting date for the year ended 31 March 2017 and 2016 have not been recognised as a liability at the reporting date. In addition, the final and special final dividends are subject to the shareholders' approval at the forthcoming annual general meeting.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2017 *HK$'000*	2016 *HK$'000*
Final dividend in respect of the previous financial year of HK$0.05 (2016: HK$0.04) per ordinary share	**75,993**	57,787
Adjustment to the final dividend *(Note)*	**(1,045)**	3,007
	74,948	60,794

Note: The adjustment was made due to shares issued/repurchase prior to the record date of the final dividend and, therefore, the related shares rank for this dividend payment.

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 year attributable to owners of the Company of HK$853,634,000 (2016: HK$608,112,000, restated) and the weighted average of 1,504,978,000 (2016: 1,508,489,000) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2017, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK$853,634,000 and on the weighted average of 1,541,243,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,504,978,000 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 36,265,000.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2016, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK$608,112,000 (restated) and on the weighted average of 1,514,978,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,508,489,000 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 6,489,000.

10. TRADE AND BILLS RECEIVABLES

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for construction projects for which settlement is made in accordance with the terms specified in the contracts governing the relevant transaction. The ageing analysis of trade and bills receivables based on invoice dates is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**345,031**	627,052
91 to 180 days	**164,691**	229,133
Over 180 days	**362,169**	227,366
	871,891	1,083,551

11. TRADE AND BILLS PAYABLES

The credit terms of trade and bills payables vary according to the terms agreed with different suppliers. Based on the invoice dates, the ageing analysis of the Group's trade and bills payables as at the reporting date is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**630,418**	517,141
91 to 180 days	**135,966**	183,559
Over 180 days	**330,667**	154,536
	1,097,051	855,236

12. PRIOR YEAR ADJUSTMENT

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

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

In preparing the consolidated financial statements for the year ended 31 March 2017, the management has reassessed the accounting treatment of those service concession agreements.

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

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

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

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

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

The following adjustments are made:

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

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

   Consequently, the water supply infrastructures previously classified as property, plant and equipment was reclassified to other intangible assets. Besides, these intangible assets are amortised on a straight-line basis over the terms of remaining service concession periods.

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

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

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

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

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

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

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

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

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

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

Impact on the total equity as at 1 April 2015:

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 March 2017, the Group recorded a revenue of HK$5,707.9 million, representing a significant increase of 20.4% from HK$4,739.9 million in last year. The Group recorded a gross profit of HK$2,484.9 million representing a significant increase of 18.4% from HK$2,097.9 million in last year. For the year under review, the Group recorded a profit for the year attributable to owners of the Company of HK$853.6 million, representing a significant increase of 40.4% from HK$608.1 million in last year. The basic earnings per share increased significantly by 40.7% to HK56.72 cents in current year.

DIVIDENDS

The Directors recommended a final dividend of HK6 cents (2016: HK5 cents) per ordinary share and a special final dividend of HK10 cents (2016: Nil) per ordinary share, which are subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 1 September 2017 and will be payable on or about Friday, 22 September 2017 to the shareholders whose names appear on the register of members on Friday, 8 September 2017.

CLOSURE OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 29 August 2017 to Friday, 1 September 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Friday, 1 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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 28 August 2017.

For Entitlement to Proposed Final and Special Final Dividends

The register of members will be closed from Thursday, 7 September 2017 to Friday, 8 September 2017, during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final and special final dividends, 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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 6 September 2017. Subject to the approval by shareholders of the Company at the forthcoming annual general meeting, the proposed final and special final dividends will be paid on or around Friday, 22 September 2017.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK$4,739.9 million for the year ended 31 March 2016 to HK$5,707.9 million for the year ended 31 March 2017, representing a significant increase of 20.4%. The Group recorded a robust growth in its "Water" segment. For the year under review, the total revenue attributable to the "Water" segment amounted to HK$5,513.7 million, which represented approximately 96.6% of the total revenue. For the corresponding year under review, the total revenue attributable to the "Water" segment amounted to HK$4,339.3 million, which represented approximately 91.5% of the total revenue. This represented a strong growth of "Water" segment revenue by 27.1%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and installation 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 year under review, the revenue from city water supply operation and construction amounted to HK$4,960.8 million (2016: HK$4,000.3 million), representing a significant increase of 24.0% as compared with the last corresponding year. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK$1,846.6 million (2016: HK$1,468.1 million), representing a significant increase of 25.8% as compared with the last corresponding year. 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 year.

For the year under review, the Group shared the profits of associates engaged in city water supply business in an amount of HK$45.5 million (2016: HK$20.5 million), representing a significant increase of 122.0% as compared with the last corresponding year.

(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 year under review, the revenue from sewage treatment and drainage operation and construction amounted to HK$552.9 million (2016: HK$339.0 million), representing a significant increase of 63.1% as compared with the last corresponding year. The sewage treatment and drainage segment profit (including sewage treatment and drainage operation and construction) amounted to HK$207.8 million (2016: HK$184.1 million), representing an increase of 12.9% as compared with the last corresponding year.

(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 year under review, the revenue from the property business segment amounted to HK$22.0 million (2016: HK$23.3 million). The total property business segment profit amounted to HK$316.0 million (2016: HK$44.1 million), representing a substantial increase of 616.6% as compared with the last corresponding year, which was mainly because of increase in the fair value gain on investment properties by HK$263.6 million (2016: fair value gain of HK$52.9 million) in current year.

For the year under review, the Group also recorded a gain on disposal of subsidiaries amounted to HK$43.9 million, which mainly represented the gain on disposal of the entire interest in 寧鄉建和建材有限公司, and 60% equity interest in 新余市建和混凝土有限公司and its subsidiaries. For the corresponding year under review, the Group recorded a loss on disposal of a subsidiary amounted to HK$1.5 million, which represented the loss on disposal of 51% equity interest in 萍鄉建和建材有限公司. The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing water supply related businesses in China.

PROSPECTS

With our outstanding management, the Group is committed to enhance the efficiency, quality and services of our water supply operations through co-operation with the Chinese government, with whom we invest, construct and own the city water supply business together. Currently, we are embracing a valuable opportunity: on one hand, China is further pushing forward urbanisation and industrialisation; on the other hand, the Chinese government provides public services through Public-Private Partnership, and the current government even determined ecological civilisation as the nation's strategy. Amid challenges such as shortage of water resources, severe water pollution and unbalanced distribution of water resources, the government took a bold move and defined water as a commodity, introduced trading of water rights and let the price of such commonest public product to be set by the market eventually. Progressive water tariff system has also been implemented so as to protect the fundamental rights of the low-income group.

With our sound internal financial resources, we are well positioned to grasp every development opportunity. Throughout the years of water supply operations, we have earned trust from the government and public, and acquired experience of operation and management. We shall uphold our business vision of "the highest excellence is like that of water" and "kindness to society" and position actively the water supply market countrywide. We will also continue to enhance our internal management and accelerate the disposal of non-core assets with an aim of improving the Group's core competitiveness and corporate value, and maximising returns for our shareholders.

UPDATE ON THE PROPOSED SPIN-OFF OF THE GROUP'S CONCRETE BUSINESS AND INSTALLATION BUSINESS

The Company issued announcements on 18 September 2015 and 6 October 2015 in relation to the proposed spin-off of the Group's concrete business in Jiangxi and Hunan Provinces and installation business of water pipes and meters in Ningxiang county, Hunan Province, the PRC (the "Proposed Spin-Off"). Due to changes in the business environment and prospect of the concrete industry in the PRC, the Board has re-evaluated the benefit of the Proposed Spin-Off and decided to put it on hold so as to concentrate on the development of our core water business.

CAPITAL RAISING

During the year ended 31 March 2017, the subscription rights attaching to 21,800,000 and 2,000,000 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 23,800,000 shares of HK$0.01 each for a total cash consideration of approximately HK$83,500,000 (before expenses).

ISSUE OF SENIOR NOTES

On 25 January 2017, the Company and certain existing subsidiaries of the Company which provided guarantee, entered into a purchase agreement with Morgan Stanley & Co. International plc in connection with the issue of US$300 million 5.25% senior notes due February 2022. The Company intended to use the net proceeds from the notes issue in the Company's ordinary course of business for general corporate purposes, including but not limited to for financing working capital and repayment of certain indebtedness.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2017, the Group has total cash and cash equivalents and pledged deposits of approximately HK$5,097.0 million (2016: HK$3,018.6 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 65.0% (2016: 57.7%) as at 31 March 2017. The current ratio is 1.34 times (2016: 1.25 times) as at 31 March 2017. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2017 and subsequent to the reporting date and up to the date of this announcement, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month/Year	Number of shares repurchased	Highest price per share	Lowest price per share	Aggregate consideration (excluding expenses)
		HK$	*HK$*	*HK$*
April 2016	1,002,000	3.84	3.37	3,648,000
May 2016	7,158,000	4.01	3.83	28,196,000
June 2016	570,000	4.42	4.19	2,442,000
July 2016	6,246,000	4.79	4.51	29,330,000
August 2016	4,410,000	5.00	4.61	21,402,000
September 2016	4,580,000	5.01	4.71	21,968,000
October 2016	1,652,000	5.92	5.06	9,259,000
December 2016	992,000	5.05	4.70	4,786,000
April 2017	3,282,000	5.22	5.05	16,902,000
May 2017	5,384,000	5.25	4.99	27,503,000

During the year ended 31 March 2017, the Company repurchased and cancelled a total of 26,610,000 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.

Subsequent to the reporting date and up to the date of this announcement, the Company repurchased a total of 8,666,000 ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately HK$44,405,000. Those repurchased shares were not cancelled as at the date of this announcement.

The purchase of the Company's shares during the year 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 year.

CORPORATE GOVERNANCE

During the year ended 31 March 2017, the Company has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 to 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 provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of Board should not be subject to retirement by rotation.

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

HUMAN RESOURCES

As at 31 March 2017, the Group has employed approximately 7,100 staff. Most of them 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 year ended 31 March 2017 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit committee of the Company currently comprises four independent non-executive directors, namely Mr. Chau Kam Wing (chairman of audit committee), Mr. Ong King Keung, Mr. Siu Chi Ming and Ms. Ho Ping. The annual results of the Group for the year ended 31 March 2017 have been reviewed by the audit committee.

The financial figures in respect of the announcement of the Group's consolidated results for the year ended 31 March 2017 have been agreed by the Company's auditor, PricewaterhouseCoopers Hong Kong ("PwC"), to the amount set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by PwC on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.chinawatergroup.com). The annual report will be dispatched to the shareholders and will be available on websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 29 June 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.

* *For identification purposes only*