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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 2018

KEY HIGHLIGHTS

- The Group recorded a revenue of HK$7,580.2 million, representing a significant increase of 32.8% from HK$5,707.9 million in last year.

- The revenue from city water supply operation and construction amounted to HK$6,204.1 million (2017: HK$4,960.8 million), representing a significant increase of 25.1% as compared with the last corresponding year. The relevant segment profit amounted to HK$2,401.9 million (2017: HK$1,846.6 million), representing a significant increase of 30.1% as compared with the last corresponding year.

- The revenue from sewage treatment and drainage operation and construction amounted to HK$813.6 million (2017: HK$552.9 million), representing a significant increase of 47.2% as compared with the last corresponding year. The relevant segment profit amounted to HK$271.0 million (2017: HK$207.8 million), representing a significant increase of 30.4% 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$7,017.7 million (2017: HK$5,513.7 million), representing a significant increase of 27.3% as compared with the last corresponding year. The relevant combined segment profit amounted to HK$2,672.8 million (2017: HK$2,054.4 million), representing a significant increase of 30.1% as compared with the last corresponding year.

- 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$2,717.7 million (2017: HK$1,976.3 million), representing a significant increase of 37.5% as compared with the last corresponding year.

- 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$3,122.8 million, representing a significant increase of 35.4% from HK$2,307.2 million in last corresponding year.

- Profit for the year attributable to owners of the Company was HK$1,140.5 million, representing a significant increase of 33.6% from HK$853.6 million in last year.

- Basic earnings per share for the year was HK72.62 cents, representing a significant increase of 28.0% from HK56.72 cents in last year.

- As announced in the interim results for the six months ended 30 September 2017, 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. In consideration of the satisfactory results, the board of directors has proposed to pay the equity shareholders of the Company a final dividend of HK15 cents per share. Together with the interim dividend of HK8 cents per share, the total dividends for the year will be HK23 cents per share (2017: interim and final dividend of HK10 cents per share), representing a significant increase of 130% as compared with the last corresponding year. We also declared an one-off special final dividend of HK10 cents per share in the last corresponding year to mark the 15th anniversary of the Company engaged in the water business since 2003.

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 2018 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	3	**7,580,176**	5,707,895
Cost of sales		**(4,309,540)**	(3,222,990)
Gross profit		**3,270,636**	2,484,905
Other income	3	**248,471**	242,448
Selling and distribution costs		**(175,889)**	(160,006)
Administrative expenses		**(632,345)**	(604,201)
Other operating expenses		**(12,363)**	(16,501)
Equity-settled share options expenses		**(592)**	(13,983)
Fair value gain on investment properties		**–**	316,457
Fair value gain/(loss) on financial assets at fair value through profit or loss		**181**	(225)
Change in fair value of derivative financial assets		**(26,283)**	(21,706)
Gain on disposal of subsidiaries, net		**19,566**	43,905
Operating profit	5	**2,691,382**	2,271,093
Finance costs	6	**(289,062)**	(251,154)
Share of results of associates		**59,791**	(57,314)
Profit before income tax		**2,462,111**	1,962,625
Income tax expense	7	**(700,587)**	(583,279)
Profit for the year		**1,761,524**	1,379,346

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Profit for the year attributable to:			
Owners of the Company		**1,140,518**	853,634
Non-controlling interests		**621,006**	525,712
		1,761,524	1,379,346
Earnings per share for profit attributable to owners of the Company during the year	9	***HK cents***	*HK cents*
Basic		**72.62**	56.72
Diluted		**71.82**	55.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**1,761,524**	1,379,346
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)**	5,208
– Currency translation	**692,530**	(598,314)
– Share of other comprehensive income of associates	**–**	17,410
– Recycling of currency translation differences upon disposal of subsidiaries	**727**	23,679
– Recycling of reserves upon disposal of available-for-sale financial assets	**(20,078)**	–
Other comprehensive income/(loss) for the year, net of tax	**659,430**	(552,017)
Total comprehensive income for the year	**2,420,954**	827,329
Total comprehensive income attributable to:		
Owners of the Company	**1,617,819**	514,274
Non-controlling interests	**803,135**	313,055
	2,420,954	827,329

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,695,029**	1,126,821
Prepaid land lease payments		**838,359**	733,783
Investment properties		**909,310**	1,172,637
Interests in associates		**661,279**	635,473
Available-for-sale financial assets		**162,747**	339,894
Goodwill		**817,161**	686,427
Other intangible assets		**12,681,425**	9,629,813
Prepayments, deposits and other receivables		**712,787**	624,302
Receivables under service concession arrangements		**1,103,229**	740,199
		19,581,326	15,689,349
Current assets			
Properties under development		**1,370,202**	690,083
Properties held for sale		**597,341**	288,694
Inventories		**347,638**	284,853
Trade and bills receivables	10	**1,055,014**	871,891
Receivables under service concession arrangements		**42,979**	36,783
Financial assets at fair value through profit or loss		**397,159**	224,738
Due from non-controlling equity holders of subsidiaries		**260,479**	250,582
Due from associates		**562,961**	409,091
Prepayments, deposits and other receivables		**1,293,184**	1,743,357
Derivative financial assets		**–**	45,298
Pledged deposits		**569,614**	783,013
Cash and cash equivalents		**2,511,390**	4,313,977
		9,007,961	9,942,360

	Notes	2018 HK$'000	2017 HK$'000
Current liabilities			
Trade and bills payables	11	**1,625,896**	1,097,051
Accrued liabilities, deposits received and other payables		**2,306,224**	2,101,605
Due to associates		**29,489**	34,289
Borrowings		**3,450,300**	3,205,875
Due to non-controlling equity holders of subsidiaries		**230,417**	290,634
Provision for tax		**1,006,826**	662,899
		8,649,152	7,392,353
Net current assets		**358,809**	2,550,007
Total assets less current liabilities		**19,940,135**	18,239,356
Non-current liabilities			
Borrowings		**7,431,752**	8,123,092
Deposits received		**246,633**	231,844
Due to associates		**1,201**	12,396
Due to non-controlling equity holders of subsidiaries		**77,296**	32,183
Deferred government grants		**156,336**	145,412
Deferred tax liabilities		**872,508**	731,496
		8,785,726	9,276,423
Net assets		**11,154,409**	8,962,933
EQUITY			
Equity attributable to owners of the Company			
Share capital		**16,089**	15,171
Reserves		**7,152,495**	5,600,133
		7,168,584	5,615,304
Non-controlling interests		**3,985,825**	3,347,629
Total equity		**11,154,409**	8,962,933

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 POLICIES AND DISCLOSURES

(a) Adoption of amendments to standards

During the year, the Group adopted the following amendments to standards which are relevant to the Group's operation and are mandatory for the year ended 31 March 2018.

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	Disclosure of Interest in Other Entities

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

(b) Early adoption of HKAS 40 (Amendments) "Transfer of Investment Property"

From 1 April 2017 onwards, the Group has adopted the following amendments to standards.

Amendments to HKAS 40 were issued with the purpose of clarifying when an entity should transfer property, including property under development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or cease to meet, the definition of investment property and there is evidence of the change in use. Such adoption has no significant effect on the Group's financial information for the year ended 31 March 2017.

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:

	2018	2017
	HK$'000	*HK$'000*
Revenue:		
Water supply operation services	**1,965,803**	1,621,834
Water supply connection income	**1,313,548**	967,065
Water supply construction services	**2,817,513**	2,285,362
Sewage treatment and drainage operation services	**278,113**	249,352
Sewage treatment construction services	**508,746**	281,810
Sales of properties	**445,799**	–
Sales of goods	**36,523**	173,660
Hotel and rental income	**77,734**	23,685
Finance income	**25,031**	21,162
Handling income	**23,109**	23,442
Others	**88,257**	60,523
Total	**7,580,176**	5,707,895
Other income:		
Interest income	**127,941**	122,704
Government grants and subsidies#	**69,518**	52,937
Amortisation of deferred government grants	**4,576**	4,200
Gain on disposal of prepaid land lease payments	**9,283**	–
Gain on disposal of available-for-sale financial assets, net	**664**	–
Dividend income from financial assets	**8,805**	7,631
Miscellaneous income	**27,684**	54,976
Total	**248,471**	242,448

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 uses 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 on disposal of subsidiaries, net, finance costs, share of results of associates, corporate income, corporate expense, income tax expense 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. Segment liabilities exclude items such as taxation and other corporate liabilities (mainly comprises corporate borrowings).

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

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

No asymmetrical allocations have been applied to reportable segments.

For the year ended 31 March 2018

	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	**6,204,059**	**813,636**	**478,659**	**83,822**	**–**	**7,580,176**
From inter-segment	**–**	**–**	**–**	**–**	**–**	**–**
Segment revenue	**6,204,059**	**813,636**	**478,659**	**83,822**	**–**	**7,580,176**
Segment profit/(loss)	**2,401,861**	**270,955**	**88,859**	**(7,780)**	**–**	**2,753,895**
Unallocated corporate income						**136,750**
Unallocated corporate expense						**(192,135)**
Equity-settled share options expenses						**(592)**
Gain on disposal of subsidiaries, net						**19,566**
Fair value gain on financial assets at fair value through profit or loss						**181**
Change in fair value of derivative financial assets						**(26,283)**
Finance costs						**(289,062)**
Share of results of associates	**57,639**	**231**	**(680)**	**2,601**	**–**	**59,791**
Profit before income tax						**2,462,111**
Income tax expense						**(700,587)**
Profit for the year						**1,761,524**
Other segment information						
Additions of investment properties	**–**	**–**	**12,266**	**–**	**–**	**12,266**
Additions to other non-current segment assets	**2,821,348**	**108,451**	**1,056**	**161,560**	**–**	**3,092,415**
Amortisation of deferred government grants	**4,105**	**471**	**–**	**–**	**–**	**4,576**
Amortisation of other intangible assets	**(327,589)**	**(6,463)**	**–**	**–**	**–**	**(334,052)**
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	**(35,923)**	**(8,586)**	**(1,638)**	**(24,927)**	**–**	**(71,074)**
Property, plant and equipment written off	**(1,141)**	**(374)**	**(56)**	**–**	**–**	**(1,571)**
Loss on disposal of property, plant and equipment	**(30)**	**(72)**	**–**	**–**	**–**	**(102)**
Gain on disposal of prepaid land lease payments	**9,283**	**–**	**–**	**–**	**–**	**9,283**
Reversal of provision for doubtful debts	**183**	**–**	**–**	**–**	**–**	**183**

	City water supply operation and construction	Sewage treatment and drainage operation and construction	Property development and investment	All other segments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	**16,038,849**	**1,965,189**	**3,025,746**	**2,106,650**	**23,136,434**
Other financial assets					**559,906**
Interests in associates	**445,282**	**35,370**	**66,399**	**114,228**	**661,279**
Other corporate assets					**4,231,668**
					28,589,287
Segment liabilities	**3,917,588**	**265,836**	**217,075**	**113,431**	**4,513,930**
Deferred tax liabilities					**872,508**
Provision for tax					**1,006,826**
Other corporate liabilities					**11,041,614**
					17,434,878

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 for doubtful debts	–	573	–	164	–	737

	City water supply operation and construction	Sewage treatment and drainage operation and construction	Property development and investment	All other segments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 years ended 31 March 2018 and 2017, 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.

5. OPERATING PROFIT

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

	2018	2017
	HK$'000	*HK$'000*
Cost of sales	**4,309,540**	3,222,990
Depreciation	**50,221**	44,653
Amortisation of prepaid land lease payments	**20,853**	14,734
Amortisation of other intangible assets	**334,052**	271,457
Operating leases in respect of		
– leasehold land and buildings	**19,191**	17,072
– other property, plant and equipment	**25,458**	28,531
Staff costs (including directors' emoluments):		
Salaries and wages	**625,245**	521,780
Pension scheme contribution	**112,809**	78,130
Equity-settled share options expenses	**592**	13,983
	738,646	613,893
Loss/(gain) on disposal of property, plant and equipment	**102**	(739)
Gain on disposal of prepaid land lease payments	**(9,283)**	-
Property, plant and equipment written off	**1,571**	467
Reversal of provision for doubtful debts	**(183)**	(737)
Net foreign exchange (gain)/loss	**(2,357)**	118

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**328,042**	276,018
Interest on other loans	**219,658**	124,814
Total borrowing costs	**547,700**	400,832
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	**(258,638)**	(149,678)
	289,062	251,154

7. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2018	2017
	HK$'000	*HK$'000*
Current tax		
– the PRC	**612,046**	424,100
Deferred tax	**88,541**	159,179
Total income tax expense	**700,587**	583,279

8. DIVIDENDS

(a) Dividends attributable to the year

	2018	2017
	HK$'000	*HK$'000*
Interim dividend of HK$0.08 (2017: HK$0.04) per ordinary share	**128,072**	59,789
Proposed final dividend of HK$0.15 (2017: HK$0.06) per ordinary share	**241,335**	91,023
Proposed special final dividend of HK$Nil (2017: HK$0.10) per ordinary share	**–**	151,705
	369,407	302,517

The final and special final dividends proposed after the reporting date for the year ended 31 March 2018 and 2017 were not recognised as a liability at the reporting date. In addition, the final dividend is 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

	2018	2017
	HK$'000	*HK$'000*
Final dividend and special final dividend in respect of the previous financial year of HK$0.16 (2017: HK$0.05) per ordinary share	**242,728**	75,993
Adjustment to the final dividend *(Note)*	**12,296**	(1,045)
	255,024	74,948

Note: The adjustment was made due to shares issued/repurchased prior to the record date of the final and special final dividends and, therefore, the related shares ranked 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$1,140,518,000 (2017: HK$853,634,000) and the weighted average of 1,570,508,000 (2017: 1,504,978,000) ordinary shares in issue during the year.

In the calculation of diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2018, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK$1,140,518,000 and the weighted average of 1,588,036,000 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,570,508,000 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 17,528,000.

In the calculation of 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 was based on the profit for the year attributable to owners of the Company of HK$853,634,000 and 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.

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:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**525,625**	345,031
91 to 180 days	**129,376**	164,691
Over 180 days	**400,013**	362,169
	1,055,014	871,891

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:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**1,084,886**	630,418
91 to 180 days	**194,876**	135,966
Over 180 days	**346,134**	330,667
	1,625,896	1,097,051

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 March 2018, the Group recorded a revenue of HK$7,580.2 million, representing a significant increase of 32.8% from HK$5,707.9 million in last year. The Group recorded a gross profit of HK$3,270.6 million, representing a significant increase of 31.6% from HK$2,484.9 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$1,140.5 million, representing a significant increase of 33.6% from HK$853.6 million in last year. The basic earnings per share increased significantly by 28.0% to HK72.62 cents in current year.

DIVIDENDS

The Directors recommended a final dividend of HK15 cents (2017: a final dividend of HK6 cents and a special final dividend of HK10 cents amounting to a total of HK16 cents) per ordinary share, which is subject to the approval by the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 7 September 2018 and will be payable on or about Friday, 12 October 2018 to the shareholders whose names appear on the register of members on Friday, 14 September 2018.

CLOSURE OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Wednesday, 5 September 2018 to Friday, 7 September 2018 (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, 7 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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 4 September 2018.

For Entitlement to Proposed Final Dividend

The register of members will be closed from Thursday, 13 September 2018 to Friday, 14 September 2018, during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend, 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, 12 September 2018. Subject to the approval by shareholders of the Company at the forthcoming annual general meeting, the proposed final dividend will be paid on or around Friday, 12 October 2018.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK$5,707.9 million for the year ended 31 March 2017 to HK$7,580.2 million for the year ended 31 March 2018, representing a significant increase of 32.8%. The Group recorded a robust growth in its "Water" segment. For the year under review, the total revenue attributable to the "Water" segment increased significantly from HK$5,513.7 million to HK$7,017.7 million. This represented a strong and continuous growth of "Water" segment revenue by 27.3%, 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 year under review, the revenue from city water supply operation and construction amounted to HK$6,204.1 million (2017: HK$4,960.8 million), representing a significant increase of 25.1% 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$2,401.9 million (2017: HK$1,846.6 million), representing a significant increase of 30.1% 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.

(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$813.6 million (2017: HK$552.9 million), representing a significant increase of 47.2% 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$271.0 million (2017: HK$207.8 million), representing a significant increase of 30.4% as compared with the last corresponding year. This was mainly because of upgrade of facilities for higher operating standard and procurement of more construction services in current year.

(iii) Property Business Analysis

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

For the year under review, the revenue from the property business segment amounted to HK$478.7 million (2017: HK$22.0 million), representing a significant increase of 2,075.9% as compared with the last corresponding year, which was mainly due to the sales of property projects in Henan and Hubei provinces in current year. The property business segment profit amounted to HK$88.9 million (2017: HK$316.0 million), representing a decrease of 71.9% as compared with the last corresponding year, which was mainly because of the fair value gain on investment properties of HK$316.5 million recorded in last corresponding year.

For the year 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$23.9 million. The Group also disposed of the remaining interest in China City Infrastructure Group Limited ("CCIG"), whose ordinary shares are listed on the mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2349), resulting in a loss of HK$3.7 million.

For the corresponding year under review, the Group 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. The Group also recorded a loss on share of results and the result for disposal of certain interest attributable to CCIG in an amount of HK$104.3 million.

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

Through the investment, operation and ownership (TOO) expansion model, the Group will continuously deepen its cooperation with local governments, and jointly improve the service level of city water supply. We will also enhance the efficiency and quality of the comprehensive water supply service with the benefit from the Group's professional management and extensive market experience.

At present, the water market in China has precious development opportunities. In order to adapt to the rapid and sound development of urbanisation, water supply facilities are in urgent need of upgrading and scaling up; on the other hand, the "Nineteenth National Congress" report has indicated the building of ecological civilisation is vital to sustain the Chinese nation's development. It has also elaborated comprehensively the acceleration of strategic deployment of the reform of the ecological civilisation system, promotion of green development, and the construction of a beautiful China. With the "Thirteenth Five-Year Plan" being implemented at full speed, the progress of urbanisation development and urban-rural integrated water supply will continue to accelerate. China is entering the peak of water treatment, and water supply, sewage treatment services and water environment management are expected to grow steadily.

Looking ahead, the Group will continuously uphold its business vision of "Water-Oriented, Kindness to Society", and fully grasp the opportunities of the industry development direction and market opportunities. Supported by the trust we earned from the government and public in the water industry throughout the years, as well as our substantial experience of operation and management and our sound internal resources, we are well prepared to leverage on the Group's existing coverage, foundation and advantages, focusing on the two development cores, namely urban-rural water supply integration and supply-drainage integration, deepening business expansion within our service areas, as well as accelerating our development and mergers and acquisitions in the water market. We also strive for optimising our business coverage, and actively and steadily carrying out city environmental service businesses such as water environment management, sanitation and cleaning, solid waste and hazardous waste, so as to enhance synergies. At the same time, as city residents' demands for drinking quality water has been continuously raising, we will increase our investment to strengthen the development of secondary water supply and direct drinking water business, as well as improving the construction of smart pipeline network system, in order to comprehensively improve the service capacity and quality of the Group's water business, continue to enhance its core competitiveness, provide better services to society and the people, and create higher returns for shareholders.

CAPITAL RAISING

During the year ended 31 March 2018, the subscription rights attaching to 47,700,000 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 115,700,000 shares of HK$0.01 each for a total cash consideration of approximately HK$411,750,000 (before expenses).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2018, the Group has total cash and cash equivalents and pledged deposits of approximately HK$3,081.0 million (2017: HK$5,097.0 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 61.0% (2017: 65.0%) as at 31 March 2018. The current ratio is 1.04 times (2017: 1.34 times) as at 31 March 2018. The decrease in current ratio is mainly due to repayment of long-term loans with higher interest rate. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2018, the Company repurchased its own shares on 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 year ended 31 March 2018, 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 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 2018, 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 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.

HUMAN RESOURCES

As at 31 March 2018, the Group has employed approximately 7,700 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 2018 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 2018 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 2018 have been agreed by the Company's auditor, PricewaterhouseCoopers ("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, 28 June 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.

* *For identification purposes only*