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 2019

KEY HIGHLIGHTS

- The Group recorded a revenue of HK$8,302.2 million, representing a steady increase of 9.5% from HK$7,580.2 million in last year.

- Revenue composition of city water supply operation and construction segment has been optimised. Revenue contribution from water supply operation services and water supply connection income amounted to HK$3,655.0 million (2018: HK$3,279.4 million), representing a steady increase of 11.5% as compared with the last corresponding year. Revenue contribution from water supply construction services amounted to HK$2,630.5 million (2018: HK$2,817.5 million), representing a slight decrease of 6.6% as compared with the last corresponding year.

- "Environmental protection" is used to replace "Sewage treatment and drainage operation and construction" in the segment reporting of this year to conform with the Group's business development to seek a separate listing of the Group's environmental protection business on a recognised stock exchange. Revenue contribution from sewage treatment and drainage operation services amounted to HK$319.5 million (2018: HK$278.1 million), representing a steady increase of 14.9% as compared with the last corresponding year. Revenue contribution from sewage treatment and water environmental renovation construction services amounted to HK$1,086.1 million (2018: HK$508.7 million), representing a significant increase of 113.5% as compared with the last corresponding year.

- The combined revenue from city water supply operation and construction and environmental protection segments amounted to HK$7,898.5 million (2018: HK$7,017.7 million), representing a steady increase of 12.6% as compared with the last corresponding year. The relevant combined segment profit amounted to HK$3,062.6 million (2018: HK$2,672.8 million), representing a steady increase of 14.6% as compared with the last corresponding year.

- Earnings before interest, taxes, depreciation and amortisation which is calculated as operating profit before depreciation and amortisation amounted to HK$3,506.7 million, representing a steady increase of 13.2% from HK$3,096.5 million in last corresponding year.

- Profit for the year attributable to owners of the Company was HK$1,369.2 million, representing a steady increase of 20.1% from HK$1,140.5 million in last corresponding year.

- Basic earnings per share for the year was HK85.10 cents, representing a steady increase of 17.2% from HK72.62 cents in last corresponding 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 HK16 cents per share. Together with the interim dividend of HK12 cents per share, the total dividends for the year will be HK28 cents per share (2018: interim and final dividend of HK23 cents per share), representing a steady increase of 21.7% as compared with the last corresponding year.

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 2019 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Revenue	4	**8,302,211**	7,580,176
Cost of sales		**(4,838,372)**	(4,309,540)
Gross profit		**3,463,839**	3,270,636
Other income	4	**300,258**	248,471
Selling and distribution costs		**(191,436)**	(175,889)
Administrative expenses		**(655,232)**	(632,345)
Other operating expenses		**(13,067)**	(12,363)
Equity-settled share options expenses		**–**	(592)
Fair value gain on financial assets at fair value through profit or loss		**–**	181
Change in fair value of derivative financial assets		**–**	(26,283)
Gain on disposal of subsidiaries, net		**117,841**	19,566
Operating profit	6	**3,022,203**	2,691,382
Finance costs	7	**(319,185)**	(289,062)
Share of results of associates		**69,041**	59,791
Profit before income tax		**2,772,059**	2,462,111
Income tax expense	8	**(641,776)**	(700,587)
Profit for the year		**2,130,283**	1,761,524

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**1,369,235**	1,140,518
Non-controlling interests		**761,048**	621,006
		2,130,283	1,761,524
Earnings per share for profit attributable to owners of the Company during the year	10	***HK cents***	*HK cents*
Basic		**85.10**	72.62
Diluted		**85.10**	71.82

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019	2018
	HK$'000	*HK$'000*
Profit for the year	**2,130,283**	1,761,524
Other comprehensive income/(loss)		
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)
– Currency translation	**(473,983)**	692,530
– Recycling of currency translation differences upon disposal of subsidiaries	**(3,865)**	727
– Recycling of reserves upon disposal of available-for-sale financial assets	**–**	(20,078)
Items that will not be reclassified to profit or loss:		
– Change in fair value of financial assets at fair value through other comprehensive income	**60,000**	–
Other comprehensive (loss)/income for the year, net of tax	**(417,848)**	659,430
Total comprehensive income for the year	**1,712,435**	2,420,954
Total comprehensive income attributable to:		
Owners of the Company	**1,080,910**	1,617,819
Non-controlling interests	**631,525**	803,135
	1,712,435	2,420,954

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,019,900**	1,695,029
Prepaid land lease payments		**901,423**	838,359
Investment properties		**912,335**	909,310
Interests in associates		**676,035**	661,279
Financial assets at fair value through other comprehensive income		**349,225**	–
Available-for-sale financial assets		**–**	162,747
Goodwill		**1,220,394**	817,161
Other intangible assets		**15,293,235**	12,681,425
Prepayments, deposits and other receivables		**1,500,105**	712,787
Contract assets		**540,779**	–
Receivables under service concession arrangements		**1,079,365**	1,103,229
		24,492,796	19,581,326
Current assets			
Properties under development		**1,273,890**	1,370,202
Properties held for sale		**816,189**	597,341
Inventories		**530,990**	347,638
Contract assets		**233,484**	–
Receivables under service concession arrangements		**61,967**	42,979
Trade and bills receivables	11	**1,242,864**	1,055,014
Financial assets at fair value through profit or loss		**489,340**	397,159
Due from non-controlling equity holders of subsidiaries		**288,194**	260,479
Due from associates		**227,416**	562,961
Prepayments, deposits and other receivables		**1,549,667**	1,293,184
Pledged deposits		**644,524**	569,614
Cash and cash equivalents		**3,973,315**	2,511,390
		11,331,840	9,007,961

	Notes	**2019** **HK$'000**	2018 HK$'000
Current liabilities			
Contract liabilities		**648,134**	–
Trade and bills payables	12	**2,410,098**	1,625,896
Accrued liabilities, deposits received and other payables		**1,979,082**	2,306,224
Due to associates		**46,093**	29,489
Borrowings		**3,437,483**	3,450,300
Due to non-controlling equity holders of subsidiaries		**219,048**	230,417
Provision for tax		**1,278,874**	1,006,826
		10,018,812	8,649,152
Net current assets		**1,313,028**	358,809
Total assets less current liabilities		**25,805,824**	19,940,135
Non-current liabilities			
Borrowings		**11,494,131**	7,431,752
Contract liabilities		**273,133**	–
Deposits received		**–**	246,633
Due to associates		**–**	1,201
Due to non-controlling equity holders of subsidiaries		**27,784**	77,296
Deferred government grants		**225,583**	156,336
Deferred tax liabilities		**882,723**	872,508
		12,903,354	8,785,726
Net assets		**12,902,470**	11,154,409
EQUITY			
Equity attributable to owners of the Company			
Share capital		**16,089**	16,089
Reserves		**7,954,377**	7,152,495
		7,970,466	7,168,584
Non-controlling interests		**4,932,004**	3,985,825
Total equity		**12,902,470**	11,154,409

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, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, 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. **NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS**

During the year, the Group adopted the following new standards, amendments to standards and interpretations which are relevant to the Group's operation and are mandatory for the year ended 31 March 2019.

Annual Improvements Project	Annual Improvements to HKFRSs 2014-2016 Cycle
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Classifications to HKFRS 15
HK (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration

Except for HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers as disclosed in note 3, the adoption of these amendments to standards have no significant effects on the Group's financial information.

3. **CHANGES IN ACCOUNTING POLICIES**

The below explains the impact from adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior years.

The Group adopted HKFRS 9 and HKFRS 15 using the modified retrospective approach where the cumulative impact from adoption is recognised in the opening balance of retained earnings as at 1 April 2018 and that comparatives had not be restated. The new accounting policies and the adjustments to the consolidated financial statements are set out below.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial investments and other financial assets and financial liabilities, derecognition of financial instruments, impairment of financial investments and other financial assets and hedge accounting.

HKFRS 15 replaces HKAS 18 Revenue which covers contracts for goods and services and HKAS 11 Construction Contracts which covers construction contracts. HKFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Impact on the consolidated financial statements as at 1 April 2018 arising from HKFRS 9 and HKFRS 15

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

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

4. REVENUE AND OTHER INCOME

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

	2019 *HK$'000*	2018 *HK$'000*
Revenue:		
Water supply operation services	**2,213,932**	1,965,803
Water supply connection income	**1,441,064**	1,313,548
Water supply construction services	**2,630,500**	2,817,513
Sewage treatment and drainage operation services	**319,506**	278,113
Sewage treatment and water environmental renovation construction services	**1,086,107**	508,746
Sales of properties	**250,991**	445,799
Sales of goods	**14,282**	36,523
Hotel and rental income	**102,106**	77,734
Finance income	**37,770**	25,031
Handling income	**29,568**	23,109
Others	**176,385**	88,257
Total	**8,302,211**	7,580,176
Other income:		
Interest income	**96,487**	127,941
Government grants and subsidies#	**143,234**	69,518
Amortisation of deferred government grants	**8,158**	4,576
Gain on disposal of property, plant and equipment, net	**4,874**	–
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	**8,833**	8,805
Miscellaneous income	**38,672**	27,684
Total	**300,258**	248,471

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

5. 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) "City water supply operation and construction" involves the provision of water supply operation and construction services;

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

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

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

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 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), financial assets at fair value through other comprehensive income, available-for-sale financial assets, financial assets at fair value through profit or loss and interests in associates. 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 2019

	City water supply operation and construction *HK$'000*	Environmental protection *HK$'000*	Property development and investment *HK$'000*	All other segments *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Revenue						
From external customers	6,376,124	1,522,337	291,043	112,707	–	8,302,211
From inter-segment	–	–	–	–	–	–
Segment revenue	6,376,124	1,522,337	291,043	112,707	–	8,302,211
Segment profit/(loss)	2,618,675	443,948	(78,692)	9,118	–	2,993,049
Unallocated corporate income						105,910
Unallocated corporate expense						(194,597)
Gain on disposal of subsidiaries, net						117,841
Finance costs						(319,185)
Share of results of associates	65,951	(77)	(1,487)	4,654	–	69,041
Profit before income tax						2,772,059
Income tax expense						(641,776)
Profit for the year						2,130,283
Other segment information						
Additions of investment properties	–	–	35,119	–	–	35,119
Additions to other non-current segment assets	2,627,111	123,405	3,339	126,015	–	2,879,870
Amortisation of deferred government grants	6,396	1,762	–	–	–	8,158
Amortisation of other intangible assets	(397,594)	(6,307)	–	–	–	(403,901)
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	(38,434)	(11,606)	(1,599)	(28,975)	–	(80,614)
Property, plant and equipment written off	(845)	(173)	(5)	(56)	–	(1,079)
(Loss)/gain on disposal of property, plant and equipment	(243)	(47)	(60)	5,224	–	4,874

	City water supply operation and construction *HK$'000*	Environmental protection *HK$'000*	Property development and investment *HK$'000*	All other segments *HK$'000*	Total *HK$'000*
Segment assets	**19,240,003**	**3,968,766**	**3,299,609**	**2,462,175**	**28,970,553**
Other financial assets					**838,565**
Interests in associates	**468,785**	**33,042**	**62,453**	**111,755**	**676,035**
Other corporate assets					**5,339,483**
					35,824,636
Segment liabilities	**4,144,851**	**815,200**	**483,379**	**120,253**	**5,563,683**
Deferred tax liabilities					**882,723**
Provision for tax					**1,278,874**
Other corporate liabilities					**15,196,886**
					22,922,166

For the year ended 31 March 2018

	City water supply operation and construction *HK$'000*	Environmental protection *HK$'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 *HK$'000*	Environmental protection *HK$'000*	Property development and investment *HK$'000*	All other segments *HK$'000*	Total *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 years ended 31 March 2019 and 2018, the Group did not depend on any single customer 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.

6. OPERATING PROFIT

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

	2019	2018
	HK$'000	*HK$'000*
Cost of sales	**4,838,372**	4,309,540
Depreciation	**57,013**	50,221
Amortisation of prepaid land lease payments	**23,601**	20,853
Amortisation of other intangible assets	**403,901**	334,052
Operating leases in respect of		
– leasehold land and buildings	**23,072**	19,191
– other property, plant and equipment	**28,376**	25,458
Staff costs (including directors' emoluments):		
Salaries and wages	**727,941**	625,245
Pension scheme contribution	**133,334**	112,809
Equity-settled share options expenses	**–**	592
	861,275	738,646
(Gain)/loss on disposal of property, plant and equipment, net	**(4,874)**	102
Gain on disposal of prepaid land lease payments	**–**	(9,283)
Property, plant and equipment written off	**1,079**	1,571
Reversal of provision for doubtful debts	**–**	(183)
Net foreign exchange loss/(gain)	**5,397**	(2,357)

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank loans	**430,589**	328,042
Interest on other loans	**208,263**	219,658
Total borrowing costs	**638,852**	547,700
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	**(319,667)**	(258,638)
	319,185	289,062

8. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2019	2018
	HK$'000	*HK$'000*
Current tax		
– the PRC	**638,021**	612,046
Deferred tax	**3,755**	88,541
Total income tax expense	**641,776**	700,587

9. DIVIDENDS

(a) Dividends attributable to the year

	2019	2018
	HK$'000	*HK$'000*
Interim dividend of HK$0.12 (2018: HK$0.08) per ordinary share	**193,068**	128,072
Proposed final dividend of HK$0.16 (2018: HK$0.15) per ordinary share	**257,424**	241,335
	450,492	369,407

The final dividends proposed after the reporting date for the year ended 31 March 2019 and 2018 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

	2019	2018
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year of HK$0.15 (2018: Final dividend and special final dividend of HK$0.16) per ordinary share	**241,335**	242,728
Adjustment to the final dividend *(Note)*	**–**	12,296
	241,335	255,024

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

10. 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$1,369,235,000 (2018: HK$1,140,518,000) and the weighted average of 1,608,900,859 (2018: 1,570,508,000) ordinary shares in issue during the year.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the year ended 31 March 2019.

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.

11. 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:

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**612,672**	525,625
91 to 180 days	**167,899**	129,376
Over 180 days	**462,293**	400,013
	1,242,864	1,055,014

12. 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:

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**1,678,905**	1,084,886
91 to 180 days	**308,239**	194,876
Over 180 days	**422,954**	346,134
	2,410,098	1,625,896

13. EVENT AFTER THE REPORTING PERIOD

On 3 April 2019, the Group entered into an agreement with Kangda Holdings Company Limited and Mr. Zhao Sizhen, pursuant to which the Group agreed to acquire 600,000,000 ordinary shares of HK$0.01 each in the share capital of Kangda International Environmental Company Limited (the "Sale Shares") at a total consideration of HK$1,200,000,000, the shares of which are listed on the mainboard of The Stock Exchange of Hong Kong Limited (stock code: 6136) ("Kangda International"). Kangda International and its subsidiaries are principally engaged in urban water treatment, water environmental comprehensive remediation and rural water improvement. The Sale Shares represented approximately 29.52% of the entire issued share capital of Kangda International. The consideration was fully paid by the Group and the transaction was completed on 4 April 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 March 2019, the Group recorded a revenue of HK$8,302.2 million, representing a steady increase of 9.5% from HK$7,580.2 million in last year. The Group recorded a gross profit of HK$3,463.8 million, representing a steady increase of 5.9% from HK$3,270.6 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$1,369.2 million, representing a steady increase of 20.1% from HK$1,140.5 million in last year. The basic earnings per share increased steadily by 17.2% to HK85.10 cents in current year.

DIVIDENDS

The Directors recommended a final dividend of HK16 cents (2018: a final dividend of HK15 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, 6 September 2019 and will be payable on or about Friday, 11 October 2019 to the shareholders whose names appear on the register of members on Friday, 13 September 2019.

CLOSURE OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Wednesday, 4 September 2019 to Friday, 6 September 2019 (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, 6 September 2019, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 3 September 2019.

For Entitlement to Proposed Final Dividend

The register of members will be closed from Thursday, 12 September 2019 to Friday, 13 September 2019, 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, 11 September 2019. 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, 11 October 2019.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK$7,580.2 million for the year ended 31 March 2018 to HK$8,302.2 million for the year ended 31 March 2019, representing a steady increase of 9.5%. The Group continued its strategy to focus on core business. For the year under review, the Group recorded a steady growth in its "City water supply operation and construction" and "Environment protection" segments. The total revenue attributable to the "City water supply operation and construction" and "Environment protection" segments increased from HK$7,017.7 million to HK$7,898.5 million. This represented a steady and continuous growth of segments revenue by 12.6%, 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

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 segment amounted to HK$6,376.1 million (2018: HK$6,204.1 million), representing a steady increase of 2.8% as compared with the last corresponding year. The water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK$2,618.7 million (2018: HK$2,401.9 million), representing a steady increase of 9.0% as compared with the last corresponding year. This was mainly because of increase in volume of water sold, procurement of more construction and connection work driven by the continuation of urban-rural integration and the promotion of the Public-Private Partnership model in the water sector and the additional contribution from the new water projects during the year.

(ii) Environmental Protection Business Analysis

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

For the year under review, the revenue from environmental protection segment amounted to HK$1,522.3 million (2018: HK$813.6 million), representing a significant increase of 87.1% as compared with the last corresponding year. The environmental protection segment profit (including sewage treatment and drainage operating and construction, solid waste and hazardous waste business, environmental sanitation and water environment management) amounted to HK$443.9 million (2018: HK$271.0 million), representing a significant increase of 63.8% as compared with the last corresponding year. This was mainly because of upgrade of facilities for higher operating standard and procurement of more water environmental renovation construction services.

(iii) Property Business Analysis

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

For the year under review, the revenue from the property business segment amounted to HK$291.0 million (2018: HK$478.7 million). The total property business segment loss amounted to HK$78.7 million (2018: segment profit amounted to HK$88.9 million). This was mainly due to the decrease in sales of property projects with high gross profit margin in current year.

For the year under review, the Group recorded a gain on disposal of subsidiaries amounted to HK$117.8 million, which was mainly because of the disposal of the non-core investments including the entire interests in 新余市仙女湖游船有限責任公司 and 新余市仙女湖聖祥發展有限責任公司, and 55% equity interest in 江西仙女湖旅游股份有限公司.

For the corresponding 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, 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.

The Group considered that realisation of the above non-core investments at a gain can provide resources to the Group in developing water supply and environmental protection related businesses in China.

PROSPECTS

Recently, trade frictions between the United States and China have become more and more intense, bringing uncertainties to the future development of the world economy, and slowing down the economy growth of both China and the world. Nevertheless, as one of the public utilities, the income and cash flow of water business have a high degree of certainty. Especially in China's water market, in order to adapt to the healthy and rapid development of urbanisation of the country, water supply facilities are facing the urgent needs of upgrading and expansion. Emersion of the environmental-friendly reclaimed water market is also around the corner, and the market demand shall be enormous. As to the national macro-policies, the Ministry of Finance has just released the "Opinions on Promoting the Normative Development of Public – Private Partnership" in March this year, which substantially enhanced the support for policies regarding private enterprises participating in public services, and opened up a rare opportunity for the development of the Group's business. Thanks to the Group's long-term strategic deployment and hard work, with adaption to the integration and development of the infrastructure in Guangdong-Hong Kong-Macao Greater Bay Area, a solid foundation has been laid for the healthy and rapid development of the Group's water business.

Looking forward, the Group shall fully grasp the direction of development of the industry and market opportunities, continue to adopt the model of cooperation between government and private capital actively encouraged by the government, develop its business in the fields of infrastructure and public services, deepen cooperation with local governments, and jointly enhance comprehensive services in urban water supply and water industry chain as well as the efficiency and quality of its all-round services. Supported by the trust we earned from the government and users in the water industry throughout the years, as well as our experience, we are well prepared to leverage on the Group's existing urban coverage, business foundation and advantages, focusing on the two development cores, namely urban-rural water supply integration and supply-drainage integration, and we shall expand the scale of our core business as well as optimising our portfolio and resource allocation, deepening business expansion within our service areas, accelerating our development and mergers and acquisitions in the water market and improve our business planning. We shall also accelerate the development of secondary water supply and direct drinking water business and improve the construction of smart pipeline network system, with an aim of enhancing our core competitiveness, providing better services to the society and people, and creating higher returns for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2019, the Group has total cash and cash equivalents and pledged deposits of approximately HK$4,617.8 million (2018: HK$3,081.0 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 64.0% (2018: 61.0%) as at 31 March 2019. The current ratio is 1.13 times (2018: 1.04 times) as at 31 March 2019. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2019.

CORPORATE GOVERNANCE

During the year ended 31 March 2019, 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 7 September 2018 due to their other business commitments.

HUMAN RESOURCES

As at 31 March 2019, the Group has employed approximately 8,300 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 2019 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 2019 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 2019 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, 27 June 2019

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*