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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)

CONNECTED TRANSACTIONS SUBSCRIPTION OF EQUITY INTEREST IN A SUBSIDIARY

Subscriptions

On 21 June 2018 after trading hours, Gold Tact, a wholly owned subsidiary of the Company, GT(HK) and the Subscribers entered into the Subscription Agreements pursuant to which the Subscribers agreed to subscribe for an aggregate of approximately 4.39% equity interest in Gold Tact at the total subscription price of approximately RMB138 million.

Listing Rules implications

The issued share capital of Subscriber A is held as to approximately 82.33% by Mr Li Zhong and Ms Liu Yu Jie, executive Directors of the Company, approximately 9.64% by various directors of the company's subsidiaries and approximately 8.03% by various employees/consultant of the Group. Therefore Subscriber A is an associate of Mr Li Zhong, Ms Liu Yu Jie and such subsidiaries' directors and is a connected person of the Company.

The equity interest of Subscriber B is held as to approximately 0.09% by Ms Wang Xiaoqin, a non-executive Director, approximately 87.11% by various directors of the Company's subsidiaries and approximately 12.80% by various employees of the Group. Therefore Subscriber B is an associate of Ms Wang Xiaoqin and such subsidiaries' directors and is a connected person of the Company.

The equity interest of Subscriber C is held as to approximately 82.17% by various directors of the Company's subsidiaries and approximately 17.83% by various employees of the Group. Therefore Subscriber C is an associate of such subsidiaries' directors and is a connected person of the Company.

The Subscriptions constitute connected transactions for the Company. Since the relevant percentage ratios under the Listing Rules are less than 5%, the Subscriptions are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

SUBSCRIPTION AGREEMENTS

(1) Subscription Agreement A

Date

21 June 2018

Parties

- (1) 金達環保投資(深圳)有限公司 (Gold Tact Environmental Investment (Shenzhen) Co. Ltd.*);
- (2) Gold Tact (Hong Kong) Limited; and
- (3) Total Happy Investment Limited

Subscriber A is principally engaged in investment holding. The issued share capital of Subscriber A is held as to approximately 82.33% by Mr Li Zhong and Ms Liu Yu Jie, executive Directors of the Company, approximately 9.64% by various directors of the company's subsidiaries and approximately 8.03% by various employees/consultant of the Group. Therefore Subscriber A is an associate of Mr Li Zhong, Ms Liu Yu Jie and such subsidiaries' directors and is a connected person of the Company.

(2) Subscription Agreement B

Date

21 June 2018

Parties

- (1) 金達環保投資(深圳)有限公司 (Gold Tact Environmental Investment (Shenzhen) Co. Ltd.*);
- (2) Gold Tack (Hong Kong) Limited; and
- (3) 廣西巴馬金澤投資合作企業(有限合伙) (Guangxi Bama Jinze Investment Partnership (Limited Partnership*))

Subscriber B is principally engaged in investment holding. The equity interest of Subscriber B is held as to approximately 0.09% by Ms Wang Xiaoqin, a non-executive Director, approximately 87.11% by various directors of the Company's subsidiaries and approximately 12.80% by various employees of the Group. Therefore Subscriber B is an associate of Ms Wang Xiaoqin and such subsidiaries' directors and is a connected person of the Company.

(3) Subscription Agreement C

Date

21 June 2018

Parties

- (1) 金達環保投資（深圳）有限公司 (Gold Tact Environmental Investment (Shenzhen) Co. Ltd.*);
- (2) Gold Tact (Hong Kong) Limited; and
- (3) 廣西巴馬金鵬投資合伙企業（有限合伙）(Guangxi Bama Jinpeng Investment Partnership (Limited Partnership*))

Subscriber C is principally engaged in investment holding. The equity interest of Subscriber C is held as to approximately 82.17% by various directors of the Company's subsidiaries and approximately 17.83% by various employees of the Group. Therefore Subscriber C is an associate of such subsidiaries' directors and is a connected person of the Company.

Equity interest subscribed

Each of the Subscriber A, Subscriber B and Subscriber C subscribed for equity interest representing approximately 0.64%, 2.15% and 1.60% respectively of the total equity interest of Gold Tact immediately prior to the Subscriptions. In aggregate, the Subscribers subscribed for equity interest representing approximately 4.39% of the total equity interest of Gold Tact immediately prior to the Subscriptions.

Subscription price

The subscription price pursuant to each of the Subscription Agreement A, Subscription Agreement B and Subscription Agreement C is approximately RMB20.10 million, RMB67.49 million and RMB50.42 million respectively. The total subscription price pursuant to the Subscription Agreements is RMB138,005,000.10.

The subscription price under each of the Subscription Agreements was determined after arm's length negotiation between the Company and the Subscribers and was determined on the same basis and with reference to (i) the historical performance and future prospect of Gold Tact and (ii) the historical price/earnings multiples of listed companies engaging in similar business of Gold Tact.

Conditions to the Subscriptions

The obligations of the Subscribers to pay the subscription price is conditional upon:

- (a) GT (HK) having consented to the Subscriptions; and
- (b) the Board and (if necessary) the Shareholders having approved the Subscriptions.

Completion of the Subscriptions

The Subscribers shall pay the subscription price to Gold Tact within 5 Business Days after the fulfillment (or waiver) of the conditions precedent. Completion shall take place within 30 Business Days after the full payment of the subscription price or such other date as the parties may agree in writing.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS

The Group is principally engaged in city water supply, sewage treatment and drainage operation and construction in the PRC.

Gold Tact Group is principally engaged in sewage treatment and drainage operation and water related construction in the PRC, with further expansion into areas such as solid waste and hazardous waste business, environmental sanitation and water environment management (“Environmental Protection Business”).

Set out below is the unaudited consolidated financial information of Gold Tact Group prepared according to generally accepted accounting principles of the PRC for the year Group ended 31 December 2016 and 31 December 2017:

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
Profit before taxation	199,761	188,575
Profit after taxation	141,820	147,991
Net assets	463,514	96,407

Following the Group’s internal business reorganization, there will be a clear business delineation that Gold Tact Group will focus on the Environmental Protection Business while the rest of the Group will focus on water supply related business. The managements of Gold Tact Group target to seek a separate listing of Gold Tact Group on a recognized stock exchange in due course. The Group wants to emphasize that the possible listing may or may not be materialised as there is no concrete separate listing proposal formulated. The Group will make further announcement once there is concrete separate listing proposal formulated.

The net proceeds of approximately RMB138 million from the Subscriptions will be used to finance the development of Environmental Protection Business and general working capital of Gold Tact Group. The Board considers the Subscriptions enable the Gold Tact Group to raise fund independently and can clearly delineate its financial independence from the Group with the aim to seek a separate listing.

After completion of the Subscriptions, Gold Tact will remain as a subsidiary of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of the Subscriptions to be fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interest of the Group and the Shareholders as a whole. Mr. Li Zhong, Ms Liu Yu Jie and Ms Wang Xiaoqin being materially interested in the Subscriptions, have abstained from voting at the board meeting approving the Subscriptions.

LISTING RULES IMPLICATIONS

The issued share capital of Subscriber A is held as to approximately 82.33% by Mr Li Zhong and Ms Liu Yu Jie, executive Directors of the Company, approximately 9.64% by various directors of the company's subsidiaries and approximately 8.03% by various employees/consultant of the Group. Therefore Subscriber A is an associate of Mr Li Zhong, Ms Liu Yu Jie and such subsidiaries' directors and is a connected person of the Company.

The equity interest of Subscriber B is held as to approximately 0.09% by Ms Wang Xiaoqin, a non-executive Director, approximately 87.11% by various directors of the Company's subsidiaries and approximately 12.80% by various employees of the Group. Therefore Subscriber B is an associate of Ms Wang Xiaoqin and such subsidiaries' directors and is a connected person of the Company.

The equity interest of Subscriber C is held as to approximately 82.17% by various directors of the Company's subsidiaries and approximately 17.83% by various employees of the Group. Therefore Subscriber C is an associate of such subsidiaries' directors and is a connected person of the Company.

The Subscriptions constitute connected transactions for the Company. Since the relevant percentage ratios under the Listing Rules are less than 5%, the Subscriptions are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and phrases have the following meanings:

“Board”	the board of directors of the Company
“Business Day(s)”	a day (excluding Saturday and Sunday and other statutory holidays in the PRC) on which banks in the PRC are generally open for business
“Company”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Stock Exchange

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Gold Tact”	金達環保投資（深圳）有限公司（Gold Tact Environmental Investment (Shenzhen) Co. Ltd.*), a company incorporated in the PRC with limited liability and a wholly owned subsidiary of the Company
“Gold Tact Group”	Gold Tact and its subsidiaries
“Group”	the Company and its subsidiaries
“GT (HK)”	Gold Tact (Hong Kong) Limited, a subsidiary of the Company and the 100% direct holding company of Gold Tact
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a third party who is independent of and not connected with the Company or its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Subscriber A, Subscriber B and Subscriber C
“Subscriber A”	Total Happy Investment Limited (欣旺投資有限公司)
“Subscriber B”	Guangxi Bama Jinze Investment Partnership (Limited Partnership*) 廣西巴馬金澤投資合伙企業（有限合伙）

“Subscriber C”	Guangxi Bama Jinpeng Investment Partnership (Limited Partnership*) 廣西巴馬金鵬投資合夥企業 (有限合伙)
“Subscriptions”	the subscription of equity interest in Gold Tact pursuant to the Subscription Agreements
“Subscription Agreements”	the Subscription Agreement A, Subscription Agreement B and Subscription Agreement C
“Subscription Agreement A”	the subscription agreement dated 21 June 2018 made between Gold Tact, GT(HK) and Subscriber A
“Subscription Agreement B”	the subscription agreement dated 21 June 2018 made between Gold Tact, GT(HK) and Subscriber B
“Subscription Agreement C”	the subscription agreement dated 21 June 2018 made between Gold Tact, GT(HK) and Subscriber C

By order of the Board
China Water Affairs Group Limited
Duan Chuan Liang
Chairman

Hong Kong, 21 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