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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)

## **VOLUNTARY ANNOUNCEMENT**

### **PROPOSED SPIN-OFF LISTING OF DIRECT DRINKING WATER AND WATER SUPPLY BUSINESS ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

This is a voluntary announcement made by China Water Affairs Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”).

#### **PROPOSED SPIN-OFF**

The board of directors of the Company (the “**Board**”) is pleased to announce that, in line with the national call for low-carbon green development as well as to upgrade the Group’s water supply services and full development of its direct drinking water business, the Company proposes to spin off and seek a separate listing (the “**Proposed Spin-off**”) of its city direct drinking water and water supply operation and construction business (the “**Spin-off Business**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). For the purpose of the Proposed Spin-off, the Company will undergo reorganisation such that group companies engaging in the Spin-off Business will be held under the company to be spun-off (“**Spinco**”), which is currently an indirectly wholly-owned subsidiary of the Company (together with its subsidiaries, the “**Spinco Group**”).

The Company has applied to the Stock Exchange in relation to the Proposed Spin-off pursuant to Practice Note 15 (“**Practice Note 15**”) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

## **SPINCO AS A SUBSIDIARY AND SPIN-OFF BUSINESS REMAINS CONSOLIDATED**

Upon completion of the Proposed Spin-off as currently contemplated, Spinco will remain as a subsidiary of the Company and is expected to be owned as to approximately 82% (subject to the Board's final decision and the granting of a waiver by the Stock Exchange from strict compliance with Rule 8.08(1)(d) of the Listing Rules) by the Company, with the financial results of the Spinco Group continuing to be consolidated into the Company's accounts. As such, the Company and its shareholders are expected to continue to enjoy the benefits from the growth and development of the Spinco Group.

## **REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF**

The Board considers that the Proposed Spin-off will be in the interests of the Company and its shareholders (the "**Shareholders**") taken as a whole based on the following reasons:

- **Unlocking potential value of the Spinco Group** – the Proposed Spin-off will enable the Spinco Group to be valued as a separate entity and reflect its intrinsic value as a pure-play city direct drinking water and water supply company on a stand-alone basis.
- **Enhancing focus and clarity of the Spin-off Business and the Remaining Business** – the Proposed Spin-off will enable more focused development and strategic planning, as well as better allocation of resources for the Spin-off Business and the remaining business of the Company in environmental protection, city drainage operation and other businesses (the "**Remaining Business**") given their distinctive business models.
- **The shareholder base for the Group as a whole is expected to be diversified and strengthened after the Proposed Spin-off** – the Spinco Group is expected to attract investors interested in a pure-play city direct drinking water and water supply business, who are not current investors of the Group given its public utilities and infrastructure conglomerate status.
- **A unique opportunity for the Group to raise equity financing** – the Proposed Spin-off will present a unique opportunity for the Group to raise equity financing to support its development in the direct drinking water and water supply business, to improve the credit profile of the Group as a whole and can potentially enable the Group to reduce overall financing costs in the mid to long-run.
- **Enhancing fund raising flexibility** – the Proposed Spin-off will enable the Spinco Group and the Company to have separate fundraising platforms that have direct access to both equity and debt capital markets, which will increase their respective financial flexibility and enhance their ability to maintain stable cash flow to support sustainable growth.

## **ASSURED ENTITLEMENT**

In connection with the requirements under Practice Note 15, the Company proposes to provide an assured pro-rata entitlement by effecting a distribution in specie of a portion of the shares of Spinco to the qualifying Shareholders as a special dividend to be declared by the Board, subject to, among others, the Proposed Spin-off becoming unconditional. Details of such assured entitlement and the special dividend have not yet been finalised and are subject to approval by the Board and the Company will make further announcement(s) in this regard as and when appropriate.

## **LISTING RULES IMPLICATIONS**

The Proposed Spin-off, if materialised, may constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules. The Company will make further announcement on the Proposed Spin-off in due course in accordance with the relevant requirements of the Listing Rules. The Company's management is currently reviewing the market conditions and the proposal for the Proposed Spin-off, including the timing of submitting a listing application.

**Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among others, prevailing market conditions and the approvals from the relevant authorities and the Board. As such, there is no assurance that the Proposed Spin-off will take place or as to when it may take place. Accordingly, Shareholders and public investors are advised to exercise caution when dealing in the securities of the Company.**

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

Hong Kong, 17 December 2021

*As at the date of this announcement, the Board comprises five executive Directors, being Mr. Duan Chuan Liang, Ms. Ding Bin, Ms. Liu Yu Jie, Mr. Li Zhong and Mr. Duan Jerry Linnan, three non-executive Directors, being Mr. Zhao Hai Hu, Mr. Makoto Inoue and Ms. Wang Xiaoqin, and five independent non-executive Directors, being Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping, Ms. Zhou Nan and Mr. Chan Wai Cheung Admiral.*

\* *For identification purposes only*