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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

**UNAUDITED FINANCIAL HIGHLIGHT FOR THE SIX MONTHS ENDED
30 SEPTEMBER**

| | | 2022 | 2021 | Changes |
|---|---|----------------------|---------------------|-----------------|
| | | <i>HK\$ million</i> | <i>HK\$ million</i> | % |
| | | | | <i>Note (1)</i> |
| Revenue | Total | 6,785.2 | 6,472.8 | 4.8 |
| | Direct drinking water | 406.0 | 238.9 | 69.9 |
| | Water supply operation services and water supply connection income | 2,818.7 | 2,755.9 | 2.3 |
| | Water supply construction services | 2,254.4 | 2,297.4 | (1.9) |
| | Sewage treatment and drainage operation services | 206.7 | 182.4 | 13.3 |
| | Sewage treatment and water environmental renovation construction services | 454.8 | 373.5 | 21.8 |
| Segment profit | City water supply operation and construction | 1,913.5 | 1,927.4 | (0.7) |
| | Environmental protection | 251.2 | 188.6 | 33.2 |
| EBITDA (<i>Note (2)</i>) | | 2,772.2 | 2,731.2 | 1.5 |
| Profit for the period attributable to owners of the Company | | 970.4 | 1,019.7 | (4.8) |
| Earnings per share – Basic | | HK59.45 cents | HK63.61 cents | (6.5) |
| Interim dividend per share | | HK16 cents | HK16 cents | – |

Notes: (1) The average exchange rate of Renminbi to Hong Kong Dollar adopted by the Group for financial reporting purpose depreciated by approximately 3.6% as compared with the last corresponding period.

(2) Calculated as profit before finance costs, income tax, depreciation and amortisation

* For identification purpose only

On 3 November 2022, the Company, as guarantor, and Silver Dragon Water Supply Group Limited, a wholly-owned subsidiary of the Company, as borrower, entered into a facilities agreement in respect of the five-year tenor US\$250,000,000 equivalent syndicated loan facilities with a greenshoe option of up to US\$250,000,000 equivalent.

The amount borrowed is expected to be applied for the early prepayment of certain existing bank facilities of the Company. This advance optimisation of debt structure by means of refinancing outstanding loans repayable within one year with long-term loans will remarkably enhance the Group's liquidity position.

RESULTS

The board of directors (the “Board”) of China Water Affairs Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2022, together with the comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended | |
|--|-------|-------------------------|-------------------------|
| | | 30 September | |
| | | 2022 | 2021 |
| | | (unaudited) | (unaudited) |
| | Notes | HK\$'000 | HK\$'000 |
| Revenue | 3 | 6,785,206 | 6,472,791 |
| Cost of sales | | <u>(4,276,876)</u> | <u>(3,947,464)</u> |
| Gross profit | | 2,508,330 | 2,525,327 |
| Other income | 3 | 252,879 | 212,442 |
| Selling and distribution costs | | (142,515) | (129,995) |
| Administrative expenses | | (468,392) | (430,608) |
| Gain/(loss) on deregistration or disposal of subsidiaries, net | | <u>675</u> | <u>(7,384)</u> |
| Operating profit | 5 | 2,150,977 | 2,169,782 |
| Finance costs | 6 | (270,684) | (200,811) |
| Share of results of associates | | <u>126,245</u> | <u>122,394</u> |
| Profit before income tax | | 2,006,538 | 2,091,365 |
| Income tax expense | 7 | <u>(496,122)</u> | <u>(512,588)</u> |
| Profit for the period | | <u>1,510,416</u> | <u>1,578,777</u> |

| | | Six months ended | |
|--|---------------------------|-------------------------|------------------|
| | | 30 September | |
| | | 2022 | 2021 |
| | | (unaudited) | (unaudited) |
| <i>Notes</i> | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the period attributable to: | | | |
| | Owners of the Company | 970,357 | 1,019,696 |
| | Non-controlling interests | 540,059 | 559,081 |
| | | <u>1,510,416</u> | <u>1,578,777</u> |
| Earnings per share for profit attributable to | | | |
| owners of the Company during the period | | | |
| | 8 | <i>HK cents</i> | <i>HK cents</i> |
| | Basic | <u>59.45</u> | <u>63.61</u> |
| | Diluted | <u>59.45</u> | <u>62.47</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended | |
|---|-------------------------|------------------|
| | 30 September | |
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the period | 1,510,416 | 1,578,777 |
| Other comprehensive (loss)/income | | |
| <i>Items that have been or may be reclassified subsequently to profit or loss:</i> | | |
| – Currency translation | (1,698,391) | 605,708 |
| – Recycling of currency translation differences upon disposal or deregistration of a subsidiary | 12 | 441 |
| – Recycling of reserves upon deregistration of a subsidiary | – | (1,032) |
| <i>Items that will not be reclassified to profit or loss:</i> | | |
| – Change in fair value of financial assets at fair value through other comprehensive income | (39,802) | 57,719 |
| – Share of other comprehensive income/(loss) of an associate | 12,377 | (18,765) |
| | <u>(1,725,804)</u> | <u>644,071</u> |
| Other comprehensive (loss)/income for the period, net of tax | | |
| | <u>(1,725,804)</u> | <u>644,071</u> |
| Total comprehensive (loss)/income for the period | <u>(215,388)</u> | <u>2,222,848</u> |
| Total comprehensive (loss)/income attributable to: | | |
| Owners of the Company | (330,578) | 1,518,879 |
| Non-controlling interests | 115,190 | 703,969 |
| | <u>(215,388)</u> | <u>2,222,848</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at | |
|-------------------------------|--|----------------------|-------------------|
| | | 30 September 2022 | 31 March 2022 |
| | | (unaudited) | (audited) |
| Notes | | HK\$'000 | HK\$'000 |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| | Property, plant and equipment | 3,276,478 | 3,372,755 |
| | Right-of-use assets | 1,285,165 | 1,366,709 |
| | Investment properties | 1,315,458 | 1,398,863 |
| | Investment in associates | 2,360,427 | 2,743,534 |
| | Financial assets at fair value through other comprehensive income | 425,984 | 396,688 |
| | Goodwill | 1,419,442 | 1,476,185 |
| | Other intangible assets | 26,627,180 | 26,503,555 |
| | Prepayments, deposits and other receivables | 763,228 | 806,617 |
| | Contract assets | 879,034 | 1,305,719 |
| | Receivables under service concession arrangements | 1,710,277 | 1,194,902 |
| | | 40,062,673 | 40,565,527 |
| | | 40,062,673 | 40,565,527 |
| Current assets | | | |
| | Properties under development | 1,300,478 | 2,066,096 |
| | Properties held for sale | 1,056,723 | 675,926 |
| | Inventories | 689,612 | 831,658 |
| | Contract assets | 1,330,545 | 879,691 |
| | Receivables under service concession arrangements | 114,305 | 80,180 |
| | Trade and bills receivables | 1,702,471 | 1,561,650 |
| | Financial assets at fair value through profit or loss | 1,046,015 | 1,149,409 |
| | Due from non-controlling equity holders of subsidiaries | 223,891 | 203,054 |
| | Due from associates | 142,184 | 137,699 |
| | Prepayments, deposits and other receivables | 2,707,194 | 2,384,381 |
| | Pledged deposits | 577,799 | 506,350 |
| | Cash and cash equivalents | 6,302,752 | 6,022,821 |
| | | 17,193,969 | 16,498,915 |
| | | 17,193,969 | 16,498,915 |

| | | As at | |
|--|-------|---|---|
| | | 30 September 2022 (unaudited) HK\$'000 | 31 March 2022 (audited) HK\$'000 |
| | Notes | | |
| Current liabilities | | | |
| Lease liabilities | | 36,985 | 36,805 |
| Contract liabilities | | 1,116,196 | 1,231,997 |
| Trade and bills payables | 11 | 4,980,486 | 4,673,899 |
| Accrued liabilities, deposits received and other payables | | 2,908,415 | 2,675,905 |
| Due to associates | | 71,092 | 50,190 |
| Borrowings | | 8,801,229 | 7,692,095 |
| Due to non-controlling equity holders of subsidiaries | | 393,367 | 290,230 |
| Provision for tax | | 2,673,747 | 2,597,264 |
| | | <u>20,981,517</u> | <u>19,248,385</u> |
| Net current liabilities | | <u>(3,787,548)</u> | <u>(2,749,470)</u> |
| Total assets less current liabilities | | <u>36,275,125</u> | <u>37,816,057</u> |
| Non-current liabilities | | | |
| Borrowings | | 13,475,799 | 14,171,416 |
| Lease liabilities | | 311,653 | 338,095 |
| Contract liabilities | | 319,643 | 328,489 |
| Due to non-controlling equity holders of subsidiaries | | 782,795 | 958,665 |
| Deferred government grants | | 204,077 | 222,246 |
| Deferred tax liabilities | | 1,304,372 | 1,314,402 |
| | | <u>16,398,339</u> | <u>17,333,313</u> |
| Net assets | | <u>19,876,786</u> | <u>20,482,744</u> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 16,323 | 16,323 |
| Reserves | | 12,364,339 | 12,952,889 |
| | | <u>12,380,662</u> | <u>12,969,212</u> |
| Non-controlling interests | | <u>7,496,124</u> | <u>7,513,532</u> |
| Total equity | | <u>19,876,786</u> | <u>20,482,744</u> |

Notes:

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2022 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 September 2022, the Group’s current liabilities exceeded its current assets by HK\$3,787,548,000 (31 March 2022: HK\$2,749,470,000). The directors of the Company are of the view that the Group will be able to meet its liabilities as they fall due in the next twelve months, taking into account the internal financial resources, available loan facilities and new loan facilities currently under negotiation. The Group therefore continues to adopt the going concern basis in preparing its interim condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2022 except for the adoption of the new standards and amendments to HKFRSs issued by the HKICPA that have become effective for accounting period beginning on 1 April 2022.

In the current interim period, the Group has applied the following new standard and amendments to HKFRSs issued by HKICPA:

| | |
|-----------------------------|--|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Annual Improvements Project | Annual Improvements to HKFRSs 2018-2020 |

The amendments to standards adopted by the Group did not have material impact on the Group’s financial position and performance.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of the new and revised standards, amendments or interpretations to the Group but is not yet in a position to state whether they would have material financial impact on the Group’s financial position and performance.

3. REVENUE AND OTHER INCOME

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

| | Six months ended 30 September | |
|--|----------------------------------|---------------------------------|
| | 2022 (unaudited) HK\$'000 | 2021 (unaudited) HK\$'000 |
| Revenue: | | |
| Water supply operation services | 1,688,473 | 1,642,254 |
| Water supply connection income | 997,330 | 1,052,154 |
| Water supply construction services | 1,981,233 | 2,120,025 |
| Direct drinking water operation services | 87,307 | 38,049 |
| Direct drinking water connection income | 45,568 | 23,483 |
| Direct drinking water construction services | 273,140 | 177,399 |
| Sewage treatment and drainage operation services | 206,737 | 182,403 |
| Sewage treatment and water environmental renovation construction services | 454,815 | 373,479 |
| Sales of properties | 360,697 | 368,481 |
| Sales of goods | 438,185 | 271,097 |
| Hotel and rental income | 49,728 | 54,198 |
| Finance income | 20,987 | 21,379 |
| Handling income | 19,284 | 19,668 |
| Others | 161,722 | 128,722 |
| Total | <u>6,785,206</u> | <u>6,472,791</u> |
| Other income: | | |
| Interest income | 82,796 | 62,308 |
| Government grants and subsidies | 134,047 | 110,132 |
| Amortisation of deferred government grants | 5,386 | 5,005 |
| Gain on disposal of property, plant and equipment, net | – | 3,317 |
| Gain on disposal of other intangible assets, net | 9,622 | – |
| Dividend income from financial assets | 7,574 | 4,281 |
| Miscellaneous income | 13,454 | 27,399 |
| Total | <u>252,879</u> | <u>212,442</u> |

4. SEGMENT INFORMATION

The Group has identified the following reportable segments:

- (i) “City water supply operation and construction” involves the provision of water supply and direct drinking water operation and construction services;
- (ii) “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”.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except that finance costs, share of results of associates, corporate income, corporate expense, income tax expense and gain/(loss) on deregistration or disposal of subsidiaries, net 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, financial assets at fair value through profit or loss and investment in associates.

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.

For the period ended 30 September 2022

| | City water supply operation and construction (unaudited) <i>HK\$'000</i> | Environmental protection (unaudited) <i>HK\$'000</i> | Property development and investment (unaudited) <i>HK\$'000</i> | All other segments (unaudited) <i>HK\$'000</i> | Total (unaudited) <i>HK\$'000</i> |
|--|---|---|--|---|---|
| Revenue | | | | | |
| From external customers | 5,152,787 | 728,987 | 373,356 | 530,076 | 6,785,206 |
| From inter-segment | - | - | - | - | - |
| Segment revenue | <u>5,152,787</u> | <u>728,987</u> | <u>373,356</u> | <u>530,076</u> | <u>6,785,206</u> |
| Segment profit/(loss) | <u>1,913,546</u> | <u>251,229</u> | <u>56,212</u> | <u>(15,659)</u> | <u>2,205,328</u> |
| Unallocated corporate income | | | | | 93,862 |
| Unallocated corporate expense | | | | | (148,888) |
| Gain on deregistration or disposal of subsidiaries, net | | | | | 675 |
| Finance costs | | | | | (270,684) |
| Share of results of associates | 55,953 | 68,540 | - | 1,752 | <u>126,245</u> |
| Profit before income tax | | | | | 2,006,538 |
| Income tax expense | | | | | <u>(496,122)</u> |
| Profit for the period | | | | | <u>1,510,416</u> |
| Total segment assets | <u>33,481,848</u> | <u>4,518,302</u> | <u>4,053,685</u> | <u>3,151,877</u> | <u>45,205,712</u> |

For the period ended 30 September 2021

| | City water supply operation and construction (unaudited) <i>HK\$'000</i> | Environmental protection (unaudited) <i>HK\$'000</i> | Property development and investment (unaudited) <i>HK\$'000</i> | All other segments (unaudited) <i>HK\$'000</i> | Total (unaudited) <i>HK\$'000</i> |
|--|---|---|--|---|---|
| Revenue | | | | | |
| From external customers | 5,145,701 | 596,075 | 386,482 | 344,533 | 6,472,791 |
| From inter-segment | — | — | — | — | — |
| Segment revenue | <u>5,145,701</u> | <u>596,075</u> | <u>386,482</u> | <u>344,533</u> | <u>6,472,791</u> |
| Segment profit/(loss) | <u>1,927,368</u> | <u>188,648</u> | <u>91,082</u> | <u>(6,878)</u> | 2,200,220 |
| Unallocated corporate income | | | | | 70,679 |
| Unallocated corporate expense | | | | | (93,733) |
| Loss on deregistration of a subsidiary | | | | | (7,384) |
| Finance costs | | | | | (200,811) |
| Share of results of associates | 37,598 | 83,066 | — | 1,730 | 122,394 |
| Profit before income tax | | | | | 2,091,365 |
| Income tax expense | | | | | (512,588) |
| Profit for the period | | | | | <u>1,578,777</u> |
| Total segment assets | <u>30,752,290</u> | <u>4,024,751</u> | <u>4,163,024</u> | <u>3,178,938</u> | <u>42,119,003</u> |

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

Operating profit is arrived at after charging:

| | Six months ended 30 September | |
|---|----------------------------------|-----------------------------|
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation of property, plant and equipment | 77,259 | 58,800 |
| Depreciation of right-of-use assets | 35,167 | 34,797 |
| Amortisation of other intangible assets | 382,538 | 345,425 |
| | <u> </u> | <u> </u> |

6. FINANCE COSTS

| | Six months ended 30 September | |
|--|----------------------------------|-----------------------------|
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans | 399,008 | 298,626 |
| Interest on other loans | 112,276 | 130,234 |
| Interest on lease liabilities | 8,856 | 9,122 |
| | <u> </u> | <u> </u> |
| Total borrowing costs | 520,140 | 437,982 |
| Less: interest capitalised included in property, plant and equipment, investment properties, other intangible assets and properties under development | (249,456) | (237,171) |
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |

7. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2021: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

| | Six months ended | |
|--------------------------|------------------|-------------|
| | 30 September | |
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Current income tax: | | |
| – the PRC | 431,929 | 440,533 |
| Deferred tax | 64,193 | 72,055 |
| Total income tax expense | 496,122 | 512,588 |

8. 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 period attributable to owners of the Company of HK\$970,357,000 (2021: HK\$1,019,696,000) and the weighted average of 1,632,322,000 (2021: 1,603,041,000) ordinary shares in issue during the period.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the financial period ended 30 September 2022.

For the financial period ended 30 September 2021, the calculation of diluted earnings per share was based on the profit for the period attributable to owners of the Company of HK\$1,019,696,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was the adjusted weighted average of 1,632,322,000 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,603,041,000 used in basic earnings per share calculation and adjusted for the effect of deemed exercise or conversion of convertible bonds existing during the period of 29,281,000 ordinary shares.

9. DIVIDEND

Dividend attributable to the interim period

| | Six months ended | |
|--|------------------|-------------|
| | 30 September | |
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Interim dividend | | |
| – HK\$0.16 (2021: HK\$0.16) per ordinary share | 261,172 | 261,172 |

The interim dividend proposed after the reporting date for the financial period ended 30 September 2022 and 2021 were not recognised as a liability at the reporting date.

10. TRADE AND BILLS RECEIVABLES

The ageing analysis of trade and bills receivables based on invoice dates is as follows:

| | As at | |
|----------------|--|--|
| | 30 September 2022 (unaudited) <i>HK\$'000</i> | 31 March 2022 (audited) <i>HK\$'000</i> |
| 0 to 90 days | 919,101 | 877,487 |
| 91 to 180 days | 190,316 | 150,260 |
| Over 180 days | 593,054 | 533,903 |
| | <u>1,702,471</u> | <u>1,561,650</u> |

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 transactions.

11. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables based on invoice dates is as follows:

| | As at | |
|----------------|--|--|
| | 30 September 2022 (unaudited) <i>HK\$'000</i> | 31 March 2022 (audited) <i>HK\$'000</i> |
| 0 to 90 days | 2,637,915 | 2,467,503 |
| 91 to 180 days | 738,040 | 791,483 |
| Over 180 days | 1,604,531 | 1,414,913 |
| | <u>4,980,486</u> | <u>4,673,899</u> |

The credit terms of trade and bills payables vary according to the terms agreed with different suppliers.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.16 per ordinary share (2021: HK\$0.16 per ordinary share) for the six months ended 30 September 2022. The interim dividend is expected to be paid on or about Monday, 3 April 2023 to the shareholders whose names appear on the register of members on Wednesday, 22 February 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 February 2023 to Wednesday, 22 February 2023 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the interim dividend for the six months ended 30 September 2022, 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, 17/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 February 2023.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$6,472.8 million for the six months ended 30 September 2021 to HK\$6,785.2 million for the six months ended 30 September 2022, representing a steady increase of 4.8%. The Group continued its strategy to focus on core business. For the period under review, the Group recorded a steady growth in its "City water supply operation and construction" and "Environmental protection" segments. The total revenue attributable to the "City water supply operation and construction" and "Environmental protection" segments increased from HK\$5,741.8 million to HK\$5,881.8 million. This represented a steady and continuous growth of segments revenue by 2.4%, which was mainly attributable to the successful strategies of the Group through implementation of the urban-rural water supply integration and supply-drainage integration and active development in pipeline direct drinking water business.

(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, Guangxi, Guizhou, Hainan, Jiangsu, Jiangxi, Guangdong (including Shenzhen), Chongqing, Shandong, Shanxi and Heilongjiang.

Direct drinking water projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Hubei, Henan, Hebei, Guizhou, Jiangsu, Jiangxi, Guangdong (including Shenzhen), Guangxi, Chongqing, Shandong, Shanxi, Anhui, Zhejiang, Yunnan, Sichuan, Ningxia, Fujian, Heilongjiang, Hainan and Liaoning.

For the period under review, the revenue from city water supply operation and construction segment amounted to HK\$5,152.8 million (2021: HK\$5,145.7 million), representing a steady increase of 0.1% as compared with the last corresponding period. The water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,913.5 million (2021: HK\$1,927.4 million), representing a slight decrease of 0.7% as compared with the last corresponding period. The increase in revenue was driven by the increase in volume of water sold and the increased contribution from the direct drinking water business during the period.

(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, Guangdong (including Shenzhen), Henan, Hebei, Hunan, Hubei, Guizhou, Jiangxi, Shaanxi, Heilongjiang and Sichuan.

For the period under review, the revenue from environmental protection segment amounted to HK\$729.0 million (2021: HK\$596.1 million), representing a sharp increase of 22.3% as compared with the last corresponding period. 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\$251.2 million (2021: HK\$188.6 million), representing a significant increase of 33.2% as compared with the last corresponding period. This was mainly due to procurement of more construction work driven by the supply-drainage integration and increase in volume of processed sewage in current period.

(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 period under review, the revenue from the property business segment amounted to HK\$373.4 million (2021: HK\$386.5 million). The total property business segment profit amounted to HK\$56.2 million (2021: HK\$91.1 million), representing a significant decrease of 38.3% as compared with the last corresponding period. This was mainly due to the decrease of profit margin in sales of property projects in current period.

For the period under review, the share of results of Kangda International Environmental Company Limited, whose ordinary shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), amounted to HK\$66.9 million (2021: HK\$81.2 million).

PROSPECTS

During the first half of the financial year ending 2023, the external conditions of international geopolitics and the global economy were tough and complex, under which overseas interest rates have been hiked. Coupled with several factors such as the resurgence of the COVID-19 pandemic in various regions and the material adjustment of the property sector in the Mainland, social and production activities were subject to enormous challenges. However, by our predominant engagement in utility business with water supply service as its core, which demonstrated counter-cyclical “resilience”, the Group managed to secure strong and stable performance and was honoured with the “Water Resilience” award by the Asian Development Bank (ADB) during the period.

Looking forward, with the successful conclusion of the 20th National Congress of the Chinese Communist Party, the general direction of the country’s efforts to stabilise the macroeconomy and support the development of the real economy was defined. Recently, the National Health Commission promulgated “20 Measures for Optimising COVID-19 Response”, setting fundamentals for a more scientific and precise balance between pandemic response and economic and social development, which is conducive to the orderly recovery of the market and the resume of rapid economic development. In addition, the National Development and Reform Commission issued its latest “Opinions on Enhancing Support for the Development of Private Investment” (document no. 1652), which emphasises the need to support private enterprises in investing in the infrastructure sector by carrying out mixed-ownership reforms and introducing strategic investors and professional operators and managers. These favourable factors arising from the macro policy environment will provide opportunities for the Group’s strategic implementation of the urban-rural water supply integration and supply-drainage integration. The Group will adhere to the philosophy of “Water-oriented, Kindness to Society”, and position itself around the dual-core businesses of water supply and pipeline direct drinking water with a focus on operational status, thereby replacing “capital” growth with “operational” growth of high quality. With an aim to explore further business growth points and enhance operational efficiency and synergies, the Company has introduced intelligent water services and new pipeline direct drinking water in our traditional utility businesses by adopting high technology and innovative business models. While strengthening our core competitiveness, the Company will attain sustainable and high-quality development, contributing to the improvement of people’s livelihoods and creating higher returns for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 September 2022, the Group maintained a satisfactory liquidity level. As at 30 September 2022, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$6,880.6 million (31 March 2022: HK\$6,529.2 million), which are mainly in Hong Kong dollars, Renminbi and United States dollars. The gearing ratio, calculated as a percentage of total liabilities to total assets, is 65.3% (31 March 2022: 64.1%) as at 30 September 2022.

As at 30 September 2022, the Group's current liabilities exceeded its current assets by HK\$3,787.5 million (31 March 2022: net current liabilities of HK\$2,749.5 million). It was mainly due to maturity of the outstanding principal amount of two syndicated bank loans amounting to US\$280 million (approximately HK\$2,184 million) within one year. In the opinion of the directors of the Company, after taken into account the internal financial resources, available loan facilities and new loan facilities currently under negotiation, the Group will have sufficient working capital to meet its financial obligation in full as they fall due in the foreseeable future.

As at 30 September 2022, the Group's aggregate outstanding borrowings amounted to HK\$22,277.0 million (31 March 2022: HK\$21,863.5 million), which are mainly in Hong Kong dollars, Renminbi and United States dollars. The increase in overall borrowings was mainly due to the loans raised related to the capital expenditure, repayment of indebtedness and working capital requirements of the Group. 71.5% of such outstanding borrowings was arranged on floating rate basis and the balance of 28.5% was at fixed rate basis. According to the repayment schedule, HK\$8,801.2 million was repayable within one year and the balance of HK\$13,475.8 million was repayable after one year. As at 30 September 2022, the total unutilised loan facilities available to the Group amounted to HK\$1,260.0 million (31 March 2022: HK\$1,680.7 million).

On 3 November 2022, the Company, as guarantor, and Silver Dragon Water Supply Group Limited, a wholly-owned subsidiary of the Company, as borrower, entered into a facilities agreement in respect of the five-year tenor US\$250,000,000 equivalent syndicated loan facilities with a greenshoe option of up to US\$250,000,000 equivalent.

The amount borrowed is expected to be applied for the early prepayment of certain existing bank facilities of the Company. This advance optimisation of debt structure by means of refinancing outstanding loans repayable within one year with long-term loans will remarkably enhance the Group's liquidity position.

HUMAN RESOURCES

As at 30 September 2022, the Group has employed approximately 11,200 staff. Most of them are stationed in the PRC and 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.

The Company had adopted a share option scheme to incentivise the directors, senior management and employees of the Group. During the period ended 30 September 2022, no option was granted by the Company pursuant to the share option scheme.

TREASURY AND FOREIGN EXCHANGE RISK MANAGEMENT

The Group adopted conservative treasury policies in cash and financial management for the period under review. Cash was generally placed in short-term deposits. The Group's liquidity and financing requirements were reviewed regularly.

As Hong Kong dollar was pegged with the United States dollar, the directors of the Company considered that the Group was exposed to limited risk in this aspect.

Majority of the subsidiaries of the Company operates in the PRC with most of its transactions denominated and settled in RMB. Fluctuations of exchange rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidated financial statements. If RMB appreciates/depreciates against Hong Kong dollar, the Group would record a(n) increase/decrease in the Group's net asset value. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk. The Group manages foreign currency risk by closely monitoring the proportion of its non-Renminbi borrowings.

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The Board reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements.

During the six months ended 30 September 2022, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.4.2 and A.6.7.

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Duan Chuan Liang serves as the Chairman of the Company. The function of chief executive officer is collectively performed by the executive directors. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board continues to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has strong confidence in the executive directors and believes that this structure is beneficial to the business prospects of the Company.

Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the role of the chairman provides 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 9 September 2022 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 six months ended 30 September 2022 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2022, the Company purchased an aggregate principal amount of US\$12,000,000 of the US\$350,000,000 4.85% senior notes due May 2026 (listed on the Singapore Exchange Securities Trading Limited) by private arrangement at an aggregate consideration of approximately US\$9,840,000.

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 period.

AUDIT COMMITTEE

The Audit Committee which comprises the five independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2022 with the directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company and the Stock Exchange. The interim report will be despatched to the shareholders of the Company and made available on the same websites in due course.

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

Hong Kong, 30 November 2022

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.