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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 2021**

KEY HIGHLIGHTS

- The Group recorded a revenue of HK\$6,472.8 million, representing a significant increase of 26.1% from HK\$5,131.2 million in last corresponding period.
- Revenue contribution from the direct drinking water business amounted to HK\$238.9 million (2020: HK\$51.7 million), representing a significant increase of 362.1% as compared with the last corresponding period.
- Revenue composition of city water supply operation and construction segment remained robust. Revenue contribution from water supply operation services and water supply connection income amounted to HK\$2,755.9 million (2020: HK\$2,267.0 million), representing a steady increase of 21.6% as compared with the last corresponding period. Revenue contribution from water supply construction services amounted to HK\$2,297.4 million (2020: HK\$1,924.8 million), representing a steady increase of 19.4% as compared with the last corresponding period. The revenue from city water supply operation and construction segment amounted to HK\$5,145.7 million (2020: HK\$4,240.2 million), representing a steady increase of 21.4% as compared with the last corresponding period. The revenue from city water supply operation and construction segment represented approximately 79.5% (2020: 82.6%) of the total revenue. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,927.4 million (2020: HK\$1,626.4 million), representing a steady increase of 18.5% as compared with the last corresponding period.

* For identification purpose only

- Revenue contribution from sewage treatment and drainage operation services amounted to HK\$182.4 million (2020: HK\$165.7 million), representing a steady increase of 10.1% as compared with the last corresponding period. Revenue contribution from sewage treatment and water environmental renovation construction services amounted to HK\$373.5 million (2020: HK\$291.9 million), representing a significant increase of 28.0% as compared with the last corresponding period. The revenue from environmental protection segment amounted to HK\$596.1 million (2020: HK\$500.2 million), representing a steady increase of 19.2% as compared with the last corresponding period. The revenue from environmental protection segment represented approximately 9.2% (2020: 9.7%) of the total revenue. 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\$188.6 million (2020: HK\$132.8 million), representing a significant increase of 42.0% as compared with the last corresponding period.
- Earnings before interest, taxes, depreciation and amortisation which is calculated as profit before finance costs, income tax, depreciation and amortisation amounted to HK\$2,731.2 million, represented a steady increase of 20.9% from HK\$2,258.2 million in last corresponding period.
- Profit for the period attributable to owners of the Company was HK\$1,019.7 million, representing a steady increase of 23.4% from HK\$826.5 million in last corresponding period.
- Basic earnings per share for the period was HK63.61 cents, representing a steady increase of 23.1% from HK51.68 cents in last corresponding period.
- In consideration of the satisfactory results, the board of directors has proposed to pay the equity shareholders of the Company the interim dividend of HK16 cents per share (2020: HK15 cents per share), representing a steady increase of 6.7% as compared with the last corresponding period.

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 2021, together with the comparative figures for the corresponding period in 2020, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2021	2020
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	6,472,791	5,131,231
Cost of sales		<u>(3,947,464)</u>	<u>(3,020,749)</u>
Gross profit		2,525,327	2,110,482
Other income	3	212,442	205,850
Selling and distribution costs		(129,995)	(104,522)
Administrative expenses		(430,608)	(374,294)
Loss on deregistration or disposal of subsidiaries, net		<u>(7,384)</u>	<u>(2,914)</u>
Operating profit	5	2,169,782	1,834,602
Finance costs	6	(200,811)	(192,622)
Share of results of associates		<u>122,394</u>	<u>72,070</u>
Profit before income tax		2,091,365	1,714,050
Income tax expense	7	<u>(512,588)</u>	<u>(446,560)</u>
Profit for the period		<u>1,578,777</u>	<u>1,267,490</u>

		Six months ended	
		30 September	
		2021	2020
		(unaudited)	(unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
	Owners of the Company	1,019,696	826,479
	Non-controlling interests	559,081	441,011
		<u>1,578,777</u>	<u>1,267,490</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>63.61</u>	<u>51.68</u>
	Diluted	<u>62.47</u>	<u>50.56</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 September	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period	1,578,777	1,267,490
Other comprehensive income/(loss)		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	605,708	234,077
– Recycling of currency translation differences upon deregistration or disposal of subsidiaries, net	441	137
– Recycling of reserves upon deregistration of a subsidiary	(1,032)	–
– Recycling of currency translation differences upon deemed disposal of an associate	–	1,688
<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	57,719	(57,738)
– Share of other comprehensive loss of an associate	(18,765)	–
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	644,071	178,164
	<hr/>	<hr/>
Total comprehensive income for the period	2,222,848	1,445,654
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
Owners of the Company	1,518,879	947,824
Non-controlling interests	703,969	497,830
	<hr/>	<hr/>
	2,222,848	1,445,654
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September	31 March
		2021	2021
		(unaudited)	(audited)
Notes		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
	Property, plant and equipment	3,080,060	2,862,637
	Right-of-use assets	1,337,555	1,292,404
	Investment properties	1,275,601	1,195,821
	Interests in associates	2,625,592	2,517,567
	Financial assets at fair value through other comprehensive income	382,101	376,245
	Goodwill	1,439,361	1,409,125
	Other intangible assets	24,304,017	21,654,961
	Prepayments, deposits and other receivables	753,470	719,713
	Contract assets	1,045,349	1,049,620
	Receivables under service concession arrangements	1,154,293	1,083,169
		37,397,399	34,161,262
		37,397,399	34,161,262
Current assets			
	Properties under development	1,828,067	1,826,463
	Properties held for sale	758,902	732,617
	Inventories	1,103,739	922,325
	Contract assets	876,325	479,269
	Receivables under service concession arrangements	73,847	69,090
	Trade and bills receivables	1,340,847	1,071,490
	Financial assets at fair value through profit or loss	1,034,330	1,035,098
	Due from non-controlling equity holders of subsidiaries	390,908	268,488
	Due from associates	173,154	175,912
	Prepayments, deposits and other receivables	2,233,666	1,879,698
	Pledged deposits	440,651	515,117
	Cash and cash equivalents	4,672,012	3,901,218
		14,926,448	12,876,785
		14,926,448	12,876,785

		As at	
		30 September 2021 (unaudited) <i>HK\$'000</i>	31 March 2021 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
Current liabilities			
Lease liabilities		32,990	30,531
Contract liabilities		1,038,062	1,099,264
Trade and bills payables	11	4,506,216	3,759,730
Accrued liabilities, deposits received and other payables		2,626,361	2,148,055
Due to associates		84,737	64,772
Borrowings		4,853,167	5,261,847
Due to non-controlling equity holders of subsidiaries		333,603	208,074
Provision for tax		2,295,359	1,974,885
		<u>15,770,495</u>	<u>14,547,158</u>
Net current liabilities		<u>(844,047)</u>	<u>(1,670,373)</u>
Total assets less current liabilities		<u>36,553,352</u>	<u>32,490,889</u>
Non-current liabilities			
Borrowings		14,953,952	13,167,026
Lease liabilities		335,917	329,048
Contract liabilities		343,786	310,135
Due to non-controlling equity holders of subsidiaries		676,749	392,139
Deferred government grants		243,923	243,127
Deferred tax liabilities		1,210,239	1,099,386
		<u>17,764,566</u>	<u>15,540,861</u>
Net assets		<u>18,788,786</u>	<u>16,950,028</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		16,323	15,849
Reserves		11,754,511	10,496,694
		<u>11,770,834</u>	<u>10,512,543</u>
Non-controlling interests		<u>7,017,952</u>	<u>6,437,485</u>
Total equity		<u>18,788,786</u>	<u>16,950,028</u>

Notes:

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2021 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 September 2021, the Group’s current liabilities exceeded its current assets by HK\$844,047,000 (31 March 2021: HK\$1,670,373,000). 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, the US\$200,000,000 senior notes issued in May 2021 and completion of the partial redemption of the US\$150,000,000 senior notes due February 2022. 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 2021 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 2021.

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

HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2

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	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue:		
Water supply operation services	1,642,254	1,342,587
Water supply connection income	1,052,154	905,698
Water supply construction services	2,120,025	1,891,837
Direct drinking water operation services	38,049	10,028
Direct drinking water connection income	23,483	8,667
Direct drinking water construction services	177,399	32,997
Sewage treatment and drainage operation services	182,403	165,692
Sewage treatment and water environmental renovation construction services	373,479	291,942
Sales of properties	368,481	282,323
Sales of goods	271,097	5,899
Hotel and rental income	54,198	39,931
Finance income	21,379	20,624
Handling income	19,668	16,957
Others	128,722	116,049
Total	<u>6,472,791</u>	<u>5,131,231</u>
Other income:		
Interest income	62,308	101,306
Government grants and subsidies	110,132	70,356
Amortisation of deferred government grants	5,005	4,583
Gain on disposal of property, plant and equipment, net	3,317	1,465
Dividend income from financial assets	4,281	6,758
Miscellaneous income	27,399	21,382
Total	<u>212,442</u>	<u>205,850</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 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 interests 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 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>	<u>2,200,220</u>
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>

For the period ended 30 September 2020

	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	4,240,201	500,194	301,166	89,670	5,131,231
From inter-segment	—	—	—	—	—
Segment revenue	<u>4,240,201</u>	<u>500,194</u>	<u>301,166</u>	<u>89,670</u>	<u>5,131,231</u>
Segment profit	<u>1,626,362</u>	<u>132,781</u>	<u>64,344</u>	<u>18,753</u>	1,842,240
Unallocated corporate income					108,178
Unallocated corporate expense					(112,902)
Loss on disposal of subsidiaries, net					(2,914)
Finance costs					(192,622)
Share of results of associates	35,493	34,323	—	2,254	72,070
Profit before income tax					1,714,050
Income tax expense					(446,560)
Profit for the period					<u>1,267,490</u>
Total segment assets	<u>24,788,100</u>	<u>3,164,922</u>	<u>3,668,788</u>	<u>2,706,699</u>	<u>34,328,509</u>

The Group's revenue from external customers and its non-current assets located in geographical areas other than 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	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	58,800	39,685
Depreciation of right-of-use assets	34,797	32,086
Amortisation of other intangible assets	345,425	279,799
	<u> </u>	<u> </u>

6. FINANCE COSTS

	Six months ended 30 September	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	298,626	282,606
Interest on other loans	130,234	88,852
Interest on lease liabilities	9,122	8,843
	<u> </u>	<u> </u>
Total borrowing costs	437,982	380,301
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(237,171)	(187,679)
	<u> </u>	<u> </u>
	<u>200,811</u>	<u>192,622</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 (2020: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended	
	30 September	
	2021	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax:		
– the PRC	440,533	392,644
Deferred tax	72,055	53,916
Total income tax expense	512,588	446,560

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\$1,019,696,000 (2020: HK\$826,479,000) and the weighted average of 1,603,041,000 (2020: 1,599,118,000) ordinary shares in issue during the period.

For the financial period ended 30 September 2021, the calculation of diluted earnings per share is 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.

For the financial period ended 30 September 2020, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$826,479,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was the adjusted weighted average of 1,634,684,000 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,599,118,000 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 35,566,000 ordinary shares.

9. DIVIDEND

Dividend attributable to the interim period

	Six months ended	
	30 September	
	2021	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend		
– HK\$0.16 (2020: HK\$0.15) per ordinary share	261,172	238,781

The interim dividend proposed after the reporting date for the financial period ended 30 September 2021 and 2020 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 2021 (unaudited) <i>HK\$'000</i>	31 March 2021 (audited) <i>HK\$'000</i>
0 to 90 days	635,443	464,895
91 to 180 days	133,976	100,234
Over 180 days	571,428	506,361
	<u>1,340,847</u>	<u>1,071,490</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 2021 (unaudited) <i>HK\$'000</i>	31 March 2021 (audited) <i>HK\$'000</i>
0 to 90 days	2,378,958	1,970,786
91 to 180 days	543,860	390,548
Over 180 days	1,583,398	1,398,396
	<u>4,506,216</u>	<u>3,759,730</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 (2020: HK\$0.15 per ordinary share) for the six months ended 30 September 2021. The interim dividend is expected to be paid on or about Friday, 25 February 2022 to the shareholders whose names appear on the register of members on Wednesday, 22 December 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 December 2021 to Wednesday, 22 December 2021 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 2021, 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, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 December 2021.

SIGNIFICANT INVESTMENT OR ACQUISITION

The Company considers that the prospects of pipeline direct drinking water business in China is huge and in line with the new concept of low-carbon green development. The Company believes that provision of premium pipeline direct drinking water will foster better health and life for the Chinese people and will then contribute to the development of social harmony and beautiful China. It is expected that such business will be the major focus of the Group's business development in the next couple of years.

During the six months ended 30 September 2021, the Group entered into agreements with other existing shareholders and directors to obtain control of the board of directors of 南京水杯子科技股份有限公司 ("Nanjing Aquacup Technology Co., Ltd.") ("Nanjing Aquacup"). As at 30 September 2021, the Group has already acquired approximately 23.2% equity interest in Nanjing Aquacup at a total consideration of RMB34.9 million (approximately HK\$42.0 million).

Nanjing Aquacup and its subsidiaries and associates ("Nanjing Aquacup Group") are principally engaged in pipeline direct drinking water business in China. Nanjing Aquacup was established in 1999 and its brand name "Aquacup (水杯子)" is one of the earliest brands established by the Chinese Academy of Sciences. Nanjing Aquacup Group is a pioneer in the campus pipeline direct drinking water and it currently has invested in over 40 campus pipeline direct drinking water projects serving over 370,000 people. Nanjing Aquacup also has over 100 patented technologies in its principal businesses and is awarded as the High Technology Enterprise.

The acquisition was made as part of the Group's strategy to facilitate the pipeline direct drinking water business in China. Details of the acquisition are set out in the announcement of the Company dated 29 September 2021.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$5,131.2 million for the six months ended 30 September 2020 to HK\$6,472.8 million for the six months ended 30 September 2021, representing a significant increase of 26.1%. 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\$4,740.4 million to HK\$5,741.8 million. This represented a steady and continuous growth of segments revenue by 21.1%, which was mainly attributable to the successful strategy of the Group through procurement of more construction and connection work, increase in operating efficiency and tariff of the water supply and sewage treatment plants and various mergers and acquisition.

(i) Water Supply Business Analysis

City water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Hubei, Henan, Hebei, Guizhou, Hainan, Jiangsu, Jiangxi, Shenzhen, Guangdong, 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, Shenzhen, Guangdong, Chongqing, Shandong, Shanxi, Anhui, Zhejiang, Xinjiang, Yunnan and Sichuan.

For the period under review, the revenue from city water supply operation and construction segment amounted to HK\$5,145.7 million (2020: HK\$4,240.2 million), representing a steady increase of 21.4% 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\$1,927.4 million (2020: HK\$1,626.4 million), representing a steady increase of 18.5% as compared with the last corresponding period. 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 water supply integration and the promotion of the Public-Private Partnership model in the water sector and the increased contribution from the direct drinking water business and new water projects 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, Shenzhen, Guangdong, Henan, Hebei, Hunan, Hubei, Guizhou, Jiangxi, Shaanxi, Heilongjiang and Sichuan.

For the period under review, the revenue from environmental protection segment amounted to HK\$596.1 million (2020: HK\$500.2 million), representing a steady increase of 19.2% 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\$188.6 million (2020: HK\$132.8 million), representing a significant increase of 42.0% as compared with the last corresponding period. This was mainly due to procurement of more construction work driven by the supply-drainage integration during the 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\$386.5 million (2020: HK\$301.2 million). The total property business segment profit amounted to HK\$91.1 million (2020: HK\$64.3 million), representing a significant increase of 41.7% as compared with the last corresponding period. This was mainly due to the increase in sales of property projects in current period.

For the period under review, the overall increase in the Group's share of results of associates was mainly attributable to the increase in the total contribution to the Group by Kangda International Environmental Company Limited ("Kangda International"), whose ordinary shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the period under review, the total contribution to the Group by Kangda International amounted to HK\$81.2 million, which represented share of results of Kangda International. For the corresponding period under review, the total contribution to the Group by Kangda International amounted to HK\$35.3 million, which comprised (i) the deemed loss on disposal of HK\$40.3 million arising from the exercise of 107,350,000 share options of Kangda International at the exercise price of HK\$0.76 per share held by the share options holders, resulting in the issue of 107,350,000 ordinary shares of HK\$0.01 each of Kangda International for a total cash consideration of HK\$81,586,000; and (ii) share of results of Kangda International of HK\$75.6 million.

PROSPECTS

Alongside with the development of the national economy and the improvement of people's living standard, there is an increasing demand for high quality and healthy drinking water. The overall direct drinking water industry has enormous room for growth and promising market prospects. Therefore, the development of pipeline direct drinking water business and the enhancement of service quality will become the Group's key development strategies in the next five years. Pipeline direct drinking water will be promoted to one of the core businesses of the Company. The Group will invest substantially in pipeline direct drinking water business across different regions to help local governments to achieve the goals of improving people's quality of life and building a healthy China. The Group will take the lead to promote a healthy, environmental-friendly and low-carbon lifestyle. By driving its dual core businesses of water supply and pipeline direct drinking water to success, the Group will be able to establish new profit growth points while steadily improving its revenue and profitability.

In August 2021, the National Development and Reform Commission and Ministry of Housing and Urban-Rural Development jointly issued the "Measures for the Administration of Urban Water Supply Prices" and the "Measures for the Supervision of Urban Water Supply Pricing and Cost", which had been revised to establish an incentive and restrictive mechanism to encourage cost reduction and efficiency enhancement of water businesses through a transparent system. New water pricing policies are more conducive for the Group to boost its investment, enhance its management efficiency and generate reasonable income. The policies provide strong and sustainable assurances for the healthy development of the Group's water supply businesses.

With those favorable policies, the Group will grasp the market opportunities as well as adhere to and deepen its business model of cooperation with local governments to expand its dual core businesses of water supply and pipeline direct drinking water, with an aim to provide users with a full range of professional water services. The Group will enhance its service standards and core competitiveness to create higher returns for shareholders, ultimately contributing to the national economic development and improvement of quality of life.

ISSUE AND PARTIAL REDEMPTION OF SENIOR NOTES

On 11 May 2021, the Company and certain existing subsidiaries of the Company which provided guarantee, entered into the purchase agreement with Morgan Stanley & Co. International plc, BNP Paribas, Australia and New Zealand Banking Group Limited, The Bank of East Asia, Limited, China CITIC Bank International Limited, DBS Bank Ltd. and BOCOM International Securities Limited, in connection with the issue of US\$200,000,000 4.85% senior notes due May 2026 (the “2021 Notes”). The Company intended to use the net proceeds from the notes issue in the Company’s repayment of the senior notes due February 2022 (the “2017 Notes”) and certain other indebtedness and for financing working capital and in accordance with the Company’s green finance framework.

On 21 May 2021, the Company announced to redeem an aggregate principal amount of US\$150,000,000 of the outstanding 2017 Notes on 21 June 2021 (the “Redemption Date”) at a redemption price equal to 101.3125% of the principal amount thereof, plus accrued and unpaid interest, if any, to (but not including) the Redemption Date (the “Partial Redemption”). Upon completion of the Partial Redemption, the redeemed notes were cancelled and the outstanding principal amount of the 2017 Notes is US\$150,000,000. Details of the redemption are set out in the announcements of the Company dated 21 May 2021 and 22 June 2021.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2021, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$5,112.7 million (31 March 2021: HK\$4,416.3 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 64.1% (31 March 2021: 64.0%) as at 30 September 2021. As at 30 September 2021, the Group’s current liabilities exceeded its current assets by HK\$844,047,000 (31 March 2021: HK\$1,670,373,000). It was mainly due to maturity of the outstanding principal amount of the 2017 Notes amounting to US\$150 million (approximately HK\$1,170 million) within one year. In the opinion of the directors of the Company, after taken into account the internal financial resources, available loan facilities, the US\$200,000,000 senior notes issued in May 2021 and the Partial Redemption completed, the Group will have sufficient working capital to meet its financial obligation in full as they fall due in the foreseeable future.

HUMAN RESOURCES

As at 30 September 2021, the Group has employed approximately 10,800 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.

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 of directors (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 2021, 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 3 September 2021 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 2021 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

Save as disclosed under the heading “Issue and Partial Redemption of Senior Notes” 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 2021 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, 29 November 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.