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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 2020**

KEY HIGHLIGHTS

- The Group recorded a revenue of HK\$5,131.2 million, representing a steady increase of 17.8% from HK\$4,354.7 million in 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\$2,267.0 million (2019: HK\$2,009.8 million), representing a steady increase of 12.8% as compared with the last corresponding period. Revenue contribution from water supply construction services amounted to HK\$1,924.8 million (2019: HK\$1,536.9 million), representing a significant increase of 25.2% as compared with the last corresponding period. The revenue from city water supply operation and construction segment amounted to HK\$4,240.2 million (2019: HK\$3,589.7 million), representing a steady increase of 18.1% as compared with the last corresponding period. The revenue from city water supply operation and construction segment represented approximately 82.6% (2019: 82.4%) of the total revenue. The city water supply segment profit (including city water supply, water related connection works and construction services) amounted to HK\$1,626.4 million (2019: HK\$1,449.7 million), representing a steady increase of 12.2% as compared with the last corresponding period.

* For identification purpose only

- Revenue contribution from sewage treatment and drainage operation services amounted to HK\$165.7 million (2019: HK\$174.4 million), representing a slight decrease of 5.0% as compared with the last corresponding period. Revenue contribution from sewage treatment and water environmental renovation construction services amounted to HK\$291.9 million (2019: HK\$351.8 million), representing a decrease of 17.0% as compared with the last corresponding period. The revenue from environmental protection segment amounted to HK\$500.2 million (2019: HK\$591.0 million), representing a decrease of 15.4% as compared with the last corresponding period. The revenue from environmental protection segment represented approximately 9.7% (2019: 13.6%) 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\$132.8 million (2019: HK\$191.9 million), representing a significant decrease of 30.8% 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\$2,258.2 million, representing a slight increase of 2.4% from HK\$2,205.3 million in last corresponding period. The slight increase was mainly attributable to (i) the decrease in the one-off contribution amounting to HK\$214.8 million arising from the acquisition of interests in Kangda International in the last corresponding period and (ii) inclusion of the one-off deemed loss on disposal of HK\$40.3 million arising from the exercise of share options of Kangda International by the share options holder in this period (the “One-Off Events”). Excluding the effect of the One-Off Events, the increase was 15.5% from HK\$1,990.5 million to HK\$2,298.5 million.
- Profit for the period attributable to owners of the Company was HK\$826.5 million, representing a slight decrease of 6.2% from HK\$881.1 million in last corresponding period. The slight decrease was mainly attributable to the One-Off Events. Excluding the effect of the One-Off Events, there was an increase of 30.1% from HK\$666.3 million to HK\$866.8 million in this period.
- Basic earnings per share for the period was HK51.68 cents, representing a slight decrease of 5.7% from HK54.83 cents in last corresponding period. The slight decrease was mainly attributable to the One-Off Events. Excluding the effect of the One-Off Events, there was an increase of 30.7% from HK41.46 cents to HK54.20 cents in this 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 HK15 cents per share (2019: HK14 cents per share), representing a steady increase of 7.1% 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 2020, together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2020	2019
		(unaudited)	(unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	5,131,231	4,354,710
Cost of sales		<u>(3,020,749)</u>	<u>(2,492,445)</u>
Gross profit		2,110,482	1,862,265
Other income	3	205,850	207,509
Selling and distribution costs		(104,522)	(98,919)
Administrative expenses		(374,294)	(361,813)
(Loss)/gain on disposal of subsidiaries, net		<u>(2,914)</u>	<u>878</u>
Operating profit	5	1,834,602	1,609,920
Finance costs	6	(192,622)	(239,523)
Share of results of associates		<u>72,070</u>	<u>291,389</u>
Profit before income tax		1,714,050	1,661,786
Income tax expense	7	<u>(446,560)</u>	<u>(377,818)</u>
Profit for the period		<u>1,267,490</u>	<u>1,283,968</u>

		Six months ended	
		30 September	
		2020	2019
		(unaudited)	(unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
	Owners of the Company	826,479	881,080
	Non-controlling interests	441,011	402,888
		<u>1,267,490</u>	<u>1,283,968</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>51.68</u>	<u>54.83</u>
	Diluted	<u>50.56</u>	<u>54.83</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 September	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period	1,267,490	1,283,968
Other comprehensive income		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	234,077	(643,847)
– Recycling of currency translation differences upon disposal of subsidiaries	137	(313)
– 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	(57,738)	10,227
– Share of other comprehensive income of associates	–	(6,617)
	<hr/>	<hr/>
Other comprehensive income/(loss) for the period, net of tax	178,164	(640,550)
	<hr/>	<hr/>
Total comprehensive income for the period	1,445,654	643,418
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Total comprehensive income attributable to:		
Owners of the Company	947,824	392,782
Non-controlling interests	497,830	250,636
	<hr/>	<hr/>
	1,445,654	643,418
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	30 September 2020 (unaudited) <i>HK\$'000</i>	31 March 2020 (audited) <i>HK\$'000</i>
<i>Notes</i>		
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	2,329,262	2,224,200
Right-of-use assets	1,290,337	1,297,830
Investment properties	1,066,895	1,031,042
Interests in associates	2,317,232	2,227,812
Financial assets at fair value through other comprehensive income	587,497	358,285
Goodwill	1,326,198	1,320,004
Other intangible assets	19,482,236	17,558,146
Prepayments, deposits and other receivables	1,084,879	894,863
Contract assets	775,103	670,545
Receivables under service concession arrangements	1,046,425	1,031,570
	31,306,064	28,614,297
Current assets		
Properties under development	1,509,197	1,505,720
Properties held for sale	759,703	751,533
Inventories	767,197	630,394
Contract assets	364,433	295,993
Receivables under service concession arrangements	64,970	62,361
Trade and bills receivables	10 1,191,732	1,324,787
Financial assets at fair value through profit or loss	570,456	292,135
Due from non-controlling equity holders of subsidiaries	262,989	211,072
Due from associates	136,180	13,411
Prepayments, deposits and other receivables	1,735,807	1,597,350
Pledged deposits	1,071,526	963,236
Cash and cash equivalents	5,018,130	5,640,664
	13,452,320	13,288,656

		As at	
		30 September 2020 (unaudited) HK\$'000	31 March 2020 (audited) HK\$'000
	Notes		
Current liabilities			
Lease liabilities		32,042	30,966
Contract liabilities		794,052	906,157
Trade and bills payables	11	3,450,779	3,106,708
Accrued liabilities, deposits received and other payables		2,432,151	2,482,964
Due to associates		55,883	121,805
Borrowings		4,003,995	4,090,990
Due to non-controlling equity holders of subsidiaries		223,769	163,642
Provision for tax		1,660,403	1,432,744
		<u>12,653,074</u>	<u>12,335,976</u>
Net current assets		<u>799,246</u>	<u>952,680</u>
Total assets less current liabilities		<u>32,105,310</u>	<u>29,566,977</u>
Non-current liabilities			
Borrowings		14,727,041	13,298,027
Lease liabilities		333,523	335,379
Contract liabilities		310,296	276,453
Due to non-controlling equity holders of subsidiaries		480,595	412,979
Deferred government grants		216,696	202,213
Deferred tax liabilities		1,007,645	943,423
		<u>17,075,796</u>	<u>15,468,474</u>
Net assets		<u>15,029,514</u>	<u>14,098,503</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		15,919	16,040
Reserves		9,313,247	8,491,670
		<u>9,329,166</u>	<u>8,507,710</u>
Non-controlling interests		<u>5,700,348</u>	<u>5,590,793</u>
Total equity		<u>15,029,514</u>	<u>14,098,503</u>

Notes:

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2020 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 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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 2020 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 2020.

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

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

The amendments to standards adopted by the Group did not have any impact on the Group’s accounting policies.

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 results of operations and financial position.

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	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue:		
Water supply operation services	1,352,615	1,248,212
Water supply connection income	914,365	761,578
Water supply construction services	1,924,834	1,536,915
Sewage treatment and drainage operation services	165,692	174,406
Sewage treatment and water environmental renovation construction services	291,942	351,808
Sales of properties	282,323	88,205
Sales of goods	5,899	12,111
Hotel and rental income	39,931	48,372
Finance income	20,624	21,951
Handling income	16,957	15,333
Others	116,049	95,819
Total	5,131,231	4,354,710
Other income:		
Interest income	101,306	56,807
Government grants and subsidies	70,356	105,537
Amortisation of deferred government grants	4,583	4,703
Gain on disposal of property, plant and equipment, net	1,465	6,544
Dividend income from financial assets	6,758	10,432
Miscellaneous income	21,382	23,486
Total	205,850	207,509

4. SEGMENT INFORMATION

The Group has identified the following reportable segments:

- (i) “City water supply operation and construction” involves the provision of water supply operation and construction services;
- (ii) “Environmental protection” 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)/gain on 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 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>	<u>1,842,240</u>
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	<u>72,070</u>
Profit before income tax					1,714,050
Income tax expense					<u>(446,560)</u>
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>

For the period ended 30 September 2019

	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	3,589,694	590,965	106,230	67,821	4,354,710
From inter-segment	—	—	—	—	—
Segment revenue	<u>3,589,694</u>	<u>590,965</u>	<u>106,230</u>	<u>67,821</u>	<u>4,354,710</u>
Segment profit	<u>1,449,730</u>	<u>191,922</u>	<u>13,240</u>	<u>841</u>	1,655,733
Unallocated corporate income					69,292
Unallocated corporate expense					(115,983)
Gain on disposal of subsidiaries, net					878
Finance costs					(239,523)
Share of results of associates	31,466	260,416	—	(493)	291,389
Profit before income tax					1,661,786
Income tax expense					(377,818)
Profit for the period					<u>1,283,968</u>
Total segment assets	<u>20,876,657</u>	<u>3,360,606</u>	<u>3,432,220</u>	<u>2,285,369</u>	<u>29,954,852</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	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	39,685	35,142
Depreciation of right-of-use assets	32,086	29,205
Amortisation of other intangible assets	279,799	239,691
	<u>341,570</u>	<u>299,038</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	282,606	311,240
Interest on other loans	88,852	80,576
Interest on lease liabilities	8,843	5,354
	<u>380,301</u>	<u>397,170</u>
Total borrowing costs	380,301	397,170
Less: interest capitalised included in property, plant and equipment, other intangible assets and properties under development	(187,679)	(157,647)
	<u>192,622</u>	<u>239,523</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 (2019: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Six months ended	
	30 September	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current income tax:		
– the PRC	392,644	333,312
Deferred tax	53,916	44,506
Total income tax expense	446,560	377,818

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\$826,479,000 (2019: HK\$881,080,000) and the weighted average of 1,599,118,000 (2019: 1,606,933,000) ordinary shares in issue during the period.

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.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 30 September 2019.

9. DIVIDEND

Dividend attributable to the interim period

	Six months ended	
	30 September	
	2020	2019
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interim dividend		
– HK\$0.15 (2019: HK\$0.14) per ordinary share	238,781	224,564

The interim dividend proposed after the reporting date for the financial period ended 30 September 2020 and 2019 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 2020 (unaudited) <i>HK\$'000</i>	31 March 2020 (audited) <i>HK\$'000</i>
0 to 90 days	528,995	773,703
91 to 180 days	76,820	120,514
Over 180 days	585,917	430,570
	<u>1,191,732</u>	<u>1,324,787</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 2020 (unaudited) <i>HK\$'000</i>	31 March 2020 (audited) <i>HK\$'000</i>
0 to 90 days	1,783,814	2,148,969
91 to 180 days	413,354	459,900
Over 180 days	1,253,611	497,839
	<u>3,450,779</u>	<u>3,106,708</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\$0.15 per ordinary share (2019: HK\$0.14 per ordinary share) for the six months ended 30 September 2020. The interim dividend is expected to be paid on or about Friday, 29 January 2021 to the shareholders whose names appear on the register of members on Wednesday, 16 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 14 December 2020 to Wednesday, 16 December 2020 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 2020, 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, 11 December 2020.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$4,354.7 million for the six months ended 30 September 2019 to HK\$5,131.2 million for the six months ended 30 September 2020, representing a steady increase of 17.8%. 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\$4,180.7 million to HK\$4,740.4 million. This represented a steady and continuous growth of segments revenue by 13.4%, 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, Guizhou, Hebei, Hainan, Jiangsu, Jiangxi, Shenzhen, Guangdong, Beijing, Chongqing, Shandong, Shanxi and Heilongjiang.

For the period under review, the revenue from city water supply operation and construction segment amounted to HK\$4,240.2 million (2019: HK\$3,589.7 million), representing a steady increase of 18.1% 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\$1,626.4 million (2019: HK\$1,449.7 million), representing a steady increase of 12.2% 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 additional 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, Hubei, Jiangxi, Shaanxi, Heilongjiang and Sichuan.

For the period under review, the revenue from environmental protection segment amounted to HK\$500.2 million (2019: HK\$591.0 million), representing a decrease of 15.4% 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\$132.8 million (2019: HK\$191.9 million), representing a significant decrease of 30.8% as compared with the last corresponding period. This was mainly due to the decrease in the work for upgrade of facilities for higher operating standard and water environmental renovation construction services 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\$301.2 million (2019: HK\$106.2 million). The total property business segment profit amounted to HK\$64.3 million (2019: HK\$13.2 million), representing a significant increase of 387.1% 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 decrease in the Group's share of results of associates was mainly attributable to the decrease in the one-off contribution arising from the acquisition of interests in 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\$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. For the corresponding period under review, the total contribution to the Group by Kangda International amounted to HK\$259.6 million, which comprised (i) the excess of the investor's share of the net fair value of associate's identifiable assets and liabilities over the cost of the investment of HK\$214.8 million; and (ii) share of results of Kangda International of HK\$44.8 million.

PROSPECTS

During the first half of 2020, the ongoing COVID-19 pandemic continued to deal a blow to every industry. Facing such unprecedented challenges, the Group was able to respond calmly and leverage the advantages of stable public utilities income and cash flow to maintain steady business development and enhance service standards with its healthy financial foundation. During the reporting period, the Group's water companies in over 100 cities across the country aligned themselves with the local government's economic reinvigoration scheme and activated contingency plans to strengthen nationwide safety precautions, adjusted staff working and production models and established reporting mechanism. In particular, the various information technology and automated systems developed by the Group over the past years played an important role in securing the safe production of water supply, ensuring a safe and stable operation of its water supply and sewage treatment in every city the Group operates.

Looking forward, the global impact and pressure brought by the COVID-19 pandemic are yet to be alleviated and its effects are difficult to estimate. Uncertainties in the international financial market have also resulted in a more unpredictable development of the mainland economy. However, China's GDP has achieved turnaround in the first three quarters and improved to 4.9% in the third quarter. It is expected that there will be room for the development and enhancement of the water business as the economy gradually recovers and grows.

The Group will continue to maintain its two core development strategies, namely urban-rural water supply integration and supply-drainage integration. The Group shall allocate its resources and equipment appropriately according to the pace of economic recovery and development in different regions, with the goal to continue to expand its businesses in the area of water infrastructure and public services and proactively expand its value-added services, so as to enhance its overall services capability, and the efficiency and quality of its all-round services of its relevant businesses in the water industry chain, with its urban water supply services as the focus. As to the direction of future business development, the Group shall focus on the development of its core water supply business, accelerate the development of its value-added businesses including direct drinking water, and further improve and promote the smart pipeline network system, in order to boost its core competitiveness and emergency coping ability, and provide better services to the society and people, so as to create higher returns for its shareholders.

ISSUE OF CONVERTIBLE BONDS

On 1 April 2020, the Company entered into a subscription agreement with Baring Private Equity Asia V Holding (5) Limited (“BPEA”) (the “Proposed Subscription”) pursuant to which the Company conditionally agreed to subscribe for, and BPEA conditionally agreed to issue, the exchangeable bonds for a consideration of approximately HK\$361.3 million (the “Exchangeable Bonds”). The consideration shall be satisfied by the Company issuing the convertible bonds to BPEA to convert into up to 44,886,521 ordinary shares of the Company (“Conversion Share”) at the initial conversion price (subject to adjustment) of HK\$8.05 per Conversion Share (the “Convertible Bonds”). BPEA conditionally agreed to subscribe for the Convertible Bonds of the Company in an aggregate principal amount of approximately HK\$361.3 million.

Further details of which are disclosed in the Company’s announcement dated 1 April 2020. The Proposed Subscription was completed on 8 May 2020 and the Convertible Bonds and the Exchangeable Bonds were issued on 8 May 2020 accordingly.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2020, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$6,089.7 million (31 March 2020: HK\$6,603.9 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 66.4% (31 March 2020: 66.4%) as at 30 September 2020. The current ratio is 1.06 times (31 March 2020: 1.08 times) as at 30 September 2020. The decrease in current ratio is mainly due to classification of long-term loan with repayment option amounting to USD48 million (approximately HK\$374 million) (31 March 2020: USD64 million (approximately HK\$499 million)) from non-current liability into current liability. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

HUMAN RESOURCES

As at 30 September 2020, the Group has employed approximately 10,000 staff. Most of them are stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

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 2020, 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 4 September 2020 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 2020 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 2020 and subsequent to the reporting date and up to the date of this announcement, the Company repurchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration (excluding expenses) <i>HK\$</i>
June 2020	364,000	5.58	5.52	2,018,000
July 2020	7,510,000	6.64	5.54	44,889,000
August 2020	5,348,000	6.81	6.18	34,483,000
September 2020	4,920,000	6.38	5.84	29,921,000
October 2020	984,000	5.73	5.60	5,567,000

During the period ended 30 September 2020, the Company repurchased a total of 18,142,000 ordinary shares of HK\$0.01 each in the capital of the Company. 12,156,000 repurchased shares were cancelled in August 2020. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the contributed surplus of the Company. The remaining 5,986,000 repurchased shares were not cancelled at 30 September 2020.

Subsequent to the reporting date and up to the date of this announcement, the Company repurchased a total of 984,000 ordinary shares of HK\$0.01 each in the capital of the Company. 5,986,000 repurchased shares were cancelled in October 2020. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against contributed surplus of the Company. The remaining 984,000 repurchased shares were not cancelled up to the date of this announcement.

The purchase of the Company’s shares during the period was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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 2020 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, 26 November 2020

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, four non-executive Directors, being Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi, 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.