



中國水務集團有限公司*
China Water Affairs Group Limited

Stock code : 855

Interim Report

2021/22



* For identification purposes only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Ms. Ding Bin
Ms. Liu Yu Jie
Mr. Li Zhong
Mr. Duan Jerry Linnan

Non-executive

Mr. Zhao Hai Hu
Mr. Makoto Inoue
Ms. Wang Xiaoqin
Mr. Zhou Wen Zhi
(retired on 3 September 2021)

Independent Non-executive

Mr. Chau Kam Wing
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan
Mr. Chan Wai Cheung Admiral

AUDIT COMMITTEE

Mr. Chau Kam Wing
(*Chairman of committee*)
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan
Mr. Chan Wai Cheung Admiral

REMUNERATION COMMITTEE

Mr. Chau Kam Wing
(*Chairman of committee*)
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan
Mr. Chan Wai Cheung Admiral

NOMINATION COMMITTEE

Mr. Duan Chuan Liang
(*Chairman of committee*)
Mr. Chau Kam Wing
Mr. Siu Chi Ming
Ms. Ho Ping

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

Bank of Communications
China Merchants Bank
Asian Development Bank
Australia and New Zealand Banking
Group Limited
Far Eastern International Bank

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

Water supply business

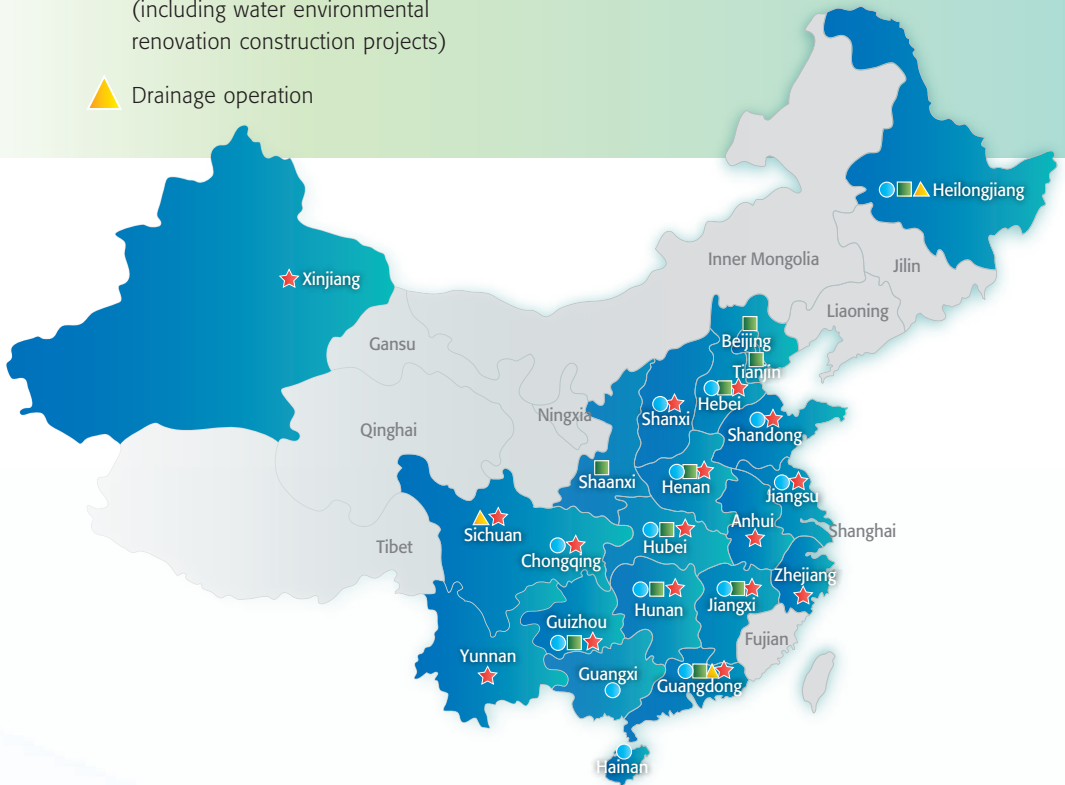
- City water supply operation and construction
 - Connected users of approximately 7 million
 - Potential reaching population over 30 million people
 - Water pipelines over 155,000 km

Direct drinking water business

- ★ Direct drinking water operation and construction
 - Users of approximately 1.5 million

Environmental protection business

- Sewage treatment operation and construction (including water environmental renovation construction projects)
- ▲ Drainage operation



FINANCIAL HIGHLIGHTS

	Six months ended 30 September		Change
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000	
RESULTS HIGHLIGHTS			
Revenue	6,472,791	5,131,231	26.1%
Gross profit	2,525,327	2,110,482	19.7%
Profit for the period	1,578,777	1,267,490	24.6%
Profit for the period attributable to owners of the Company	1,019,696	826,479	23.4%
Basic earnings per share (HK cents)	63.61	51.68	23.1%
Diluted earnings per share (HK cents)	62.47	50.56	23.6%
Interim dividend (HK cents)	16	15	6.7%

	As at		Change
	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000	
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	52,323,847	47,038,047	11.2%
Total liabilities	33,535,061	30,088,019	11.5%
Net assets	18,788,786	16,950,028	10.8%
Net assets per share ¹	7.21	6.63	8.7%
Current ratio	0.95	0.89	
Gearing ratio ²	64.1%	64.0%	

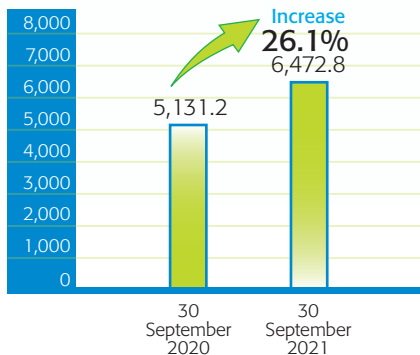
$$^1 \quad \text{Net assets per share} = \frac{\text{Equity attributable to owners of the Company}}{\text{Number of issued shares at period/year end}}$$

$$^2 \quad \text{Gearing ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

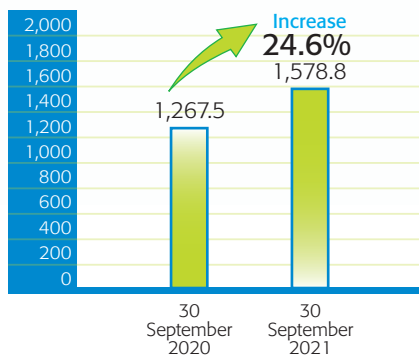
FINANCIAL HIGHLIGHTS

The Group's total revenue and profit for the period:

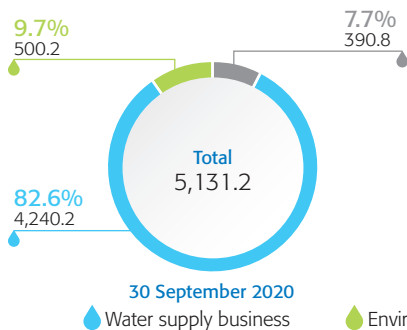
Total revenue (HK\$ million)



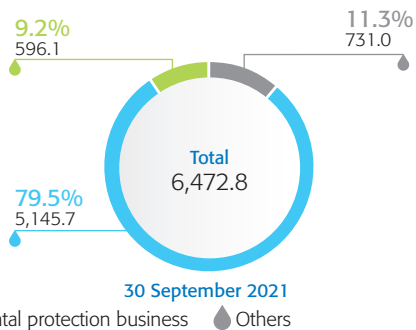
Total profit (HK\$ million)



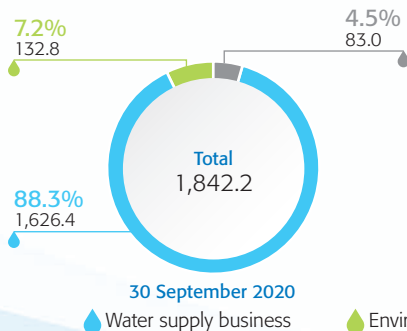
Total segment revenue (HK\$ million)



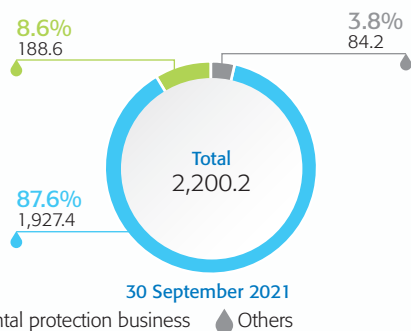
Total segment revenue (HK\$ million)



Total segment profit (HK\$ million)

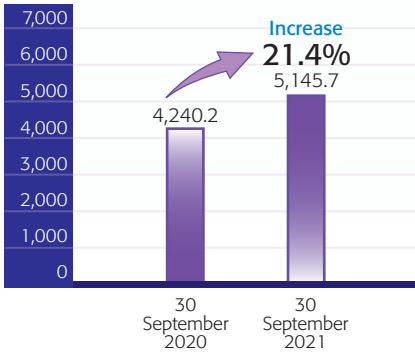


Total segment profit (HK\$ million)

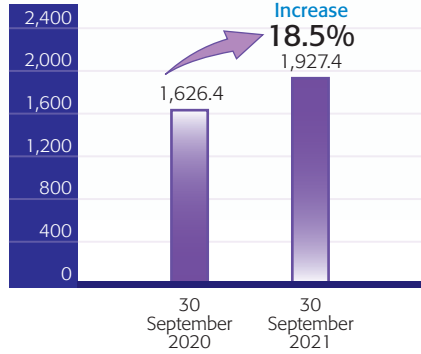


1. Water Supply Business Analysis

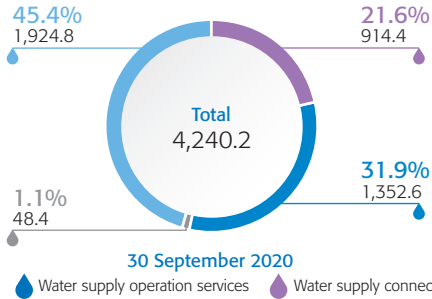
Revenue (HK\$ million)



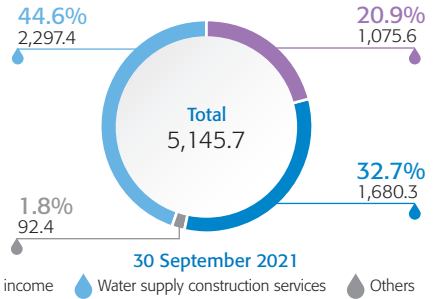
Profit (HK\$ million)



Revenue by nature (HK\$ million)



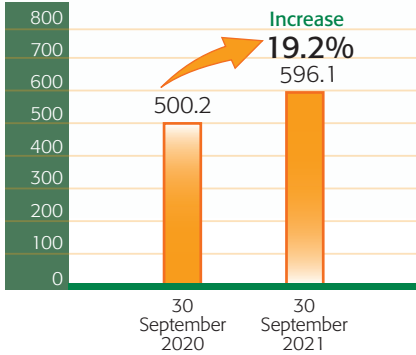
Revenue by nature (HK\$ million)



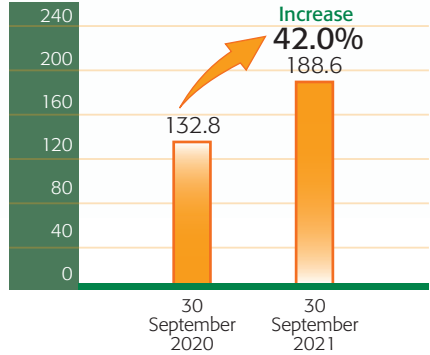
● Water supply operation services
 ● Water supply connection income
 ● Water supply construction services
 ● Others

2. Environmental Protection Business Analysis

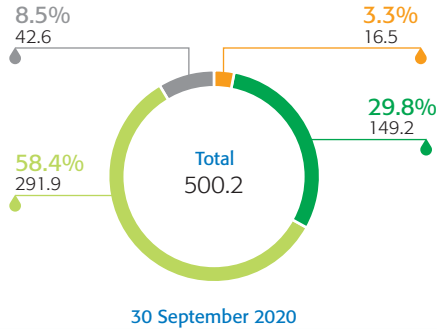
Revenue (HK\$ million)



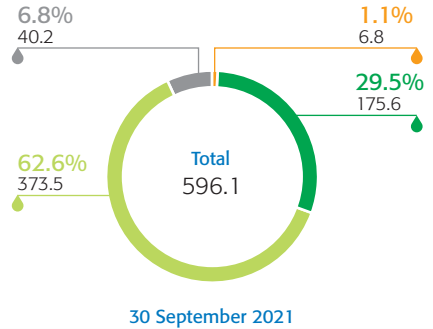
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



● Sewage treatment operation services

● Drainage operation services

● Sewage treatment and water environmental renovation construction services

● Others

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	
	<i>Notes</i>	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Revenue	5	6,472,791	5,131,231
Cost of sales		(3,947,464)	(3,020,749)
Gross profit		2,525,327	2,110,482
Other income	5	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		(7,384)	(2,914)
Operating profit	7	2,169,782	1,834,602
Finance costs	8	(200,811)	(192,622)
Share of results of associates		122,394	72,070
Profit before income tax		2,091,365	1,714,050
Income tax expense	9	(512,588)	(446,560)
Profit for the period		1,578,777	1,267,490

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

		Six months ended 30 September	
		2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
<i>Notes</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			
	10	HK cents	HK cents
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 (unaudited) HK\$'000	2020 (unaudited) 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)	–
Other comprehensive income for the period, net of tax	644,071	178,164
Total comprehensive income for the period	2,222,848	1,445,654
Total comprehensive income attributable to:		
Owners of the Company	1,518,879	947,824
Non-controlling interests	703,969	497,830
	2,222,848	1,445,654

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	3,080,060	2,862,637
Right-of-use assets	12	1,337,555	1,292,404
Investment properties		1,275,601	1,195,821
Interests in associates	13	2,625,592	2,517,567
Financial assets at fair value through other comprehensive income	14	382,101	376,245
Goodwill		1,439,361	1,409,125
Other intangible assets	12	24,304,017	21,654,961
Prepayments, deposits and other receivables	16	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
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	15	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	16	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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
	Notes	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Current liabilities			
Lease liabilities		32,990	30,531
Contract liabilities		1,038,062	1,099,264
Trade and bills payables	17	4,506,216	3,759,730
Accrued liabilities, deposits received and other payables	18	2,626,361	2,148,055
Due to associates		84,737	64,772
Borrowings	19	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
		15,770,495	14,547,158
Net current liabilities		(844,047)	(1,670,373)
Total assets less current liabilities		36,553,352	32,490,889
Non-current liabilities			
Borrowings	19	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
		17,764,566	15,540,861
Net assets		18,788,786	16,950,028

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
		Notes	
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	16,323	15,849
Reserves		11,754,511	10,496,694
		11,770,834	10,512,543
Non-controlling interests		7,017,952	6,437,485
Total equity		18,788,786	16,950,028

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Net cash inflow from operating activities	1,683,923	1,157,337
Net cash outflow from investing activities	(2,062,490)	(2,475,058)
Net cash inflow from financing activities	1,131,082	672,617
Increase/(decrease) in cash and cash equivalents	752,515	(645,104)
Cash and cash equivalents at beginning of period	3,901,218	5,640,664
Effect of foreign exchange rates, net	18,279	22,570
Cash and cash equivalents at end of period	<u>4,672,012</u>	<u>5,018,130</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>4,672,012</u>	<u>5,018,130</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company														
	Share capital	Proposed dividend	Share premium	Convertible bonds equity reserve	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Financial assets at fair value through other comprehensive income revaluation reserve	Statutory reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2021	15,849	253,584	-	282,190	3,304	32,373	122,834	96,808	(231,083)	55,259	851,030	9,030,395	10,512,243	6,437,485	16,950,028
Shares issued in respect of conversion of convertible bonds (note 21)	474	-	281,716	(282,190)	-	-	-	-	-	-	-	-	-	-	-
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	106,087	106,087
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	12,852	-	-	12,852	(104,239)	(91,407)	(91,407)
Disposal (deemed disposal of interests in subsidiaries)	-	-	-	-	-	-	-	-	(12,227)	-	-	(12,227)	104,978	92,751	92,751
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	(22)	-	-	(22)	-	(22)	(22)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	13,940	13,940	13,940
Final dividend approved	-	(253,584)	-	-	-	-	-	-	-	-	(7,587)	(261,171)	-	(261,171)	(261,171)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(245,068)	(245,068)	(245,068)
Transactions with owners	474	(253,584)	281,716	(282,190)	-	-	-	-	583	-	-	(7,587)	(260,588)	(123,502)	(584,090)
Proposed interim dividend	-	261,172	-	-	-	-	-	-	-	-	-	(261,172)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,019,696	1,019,696	559,081	1,578,777	1,578,777
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 14(i))	-	-	-	-	-	-	-	-	57,719	-	-	57,719	-	57,719	57,719
- Currency translation	-	-	-	-	-	-	460,020	-	-	-	-	460,020	144,888	605,708	605,708
- Share of other comprehensive loss of an associate	-	-	-	-	-	-	-	-	4,260	(23,025)	-	(18,765)	-	(18,765)	(18,765)
- Recycling of currency translation differences upon deregistration of a subsidiary	-	-	-	-	-	-	441	-	-	-	-	441	-	441	441
- Recycling of reserves upon deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	(1,032)	-	(1,032)	-	(1,032)	(1,032)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	461,261	-	4,260	34,694	(1,032)	1,019,696	1,518,879	705,969	2,222,848
Balance at 30 September 2021 (unaudited)	16,323	261,172	281,716	-	3,304	32,373	584,095	96,808	(226,240)	89,953	848,998	9,780,332	11,770,834	7,017,952	18,788,786

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Equity attributable to owners of the Company														
	Share capital	Proposed dividend	Treasury shares	Convertible bonds equity reserve	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options	Other reserves	Financial assets at fair value through other comprehensive income revaluation reserve	Statutory reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2020	16,040	256,645	-	-	3,113	147,201	(626,533)	96,800	(172,324)	106,224	631,110	8,048,426	8,507,710	5,590,793	14,096,503
Share repurchase	(121)	-	(36,698)	-	-	(74,492)	-	-	-	-	-	-	(111,311)	-	(111,311)
Share repurchase expense	-	-	(113)	-	-	(262)	-	-	-	-	-	-	(375)	-	(375)
Convertible bonds issued	-	-	-	282,190	-	-	-	-	-	-	-	-	282,190	-	282,190
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	53,709	53,709
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	(42,494)	-	-	-	(42,494)	(207,706)	(250,200)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,779)	(4,779)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	6,413	6,413
Final dividend approved	-	(256,645)	-	-	-	2,267	-	-	-	-	-	-	(254,378)	-	(254,378)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(237,912)	(237,912)
Transactions with owners	(121)	(256,645)	(36,811)	282,190	-	(72,487)	-	-	(42,494)	-	-	-	(126,368)	(388,275)	(514,643)
Proposed interim dividend	-	238,781	-	-	-	-	-	-	-	-	-	-	(238,781)	-	-
Transfer to capital redemption reserve	-	-	-	-	121	-	-	-	-	-	-	-	(121)	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	826,479	826,479	441,011	1,267,490
Other comprehensive income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 14(f))	-	-	-	-	-	-	-	-	-	(57,738)	-	-	(57,738)	-	(57,738)
- Currency translation	-	-	-	-	-	-	177,258	-	-	-	-	-	177,258	56,819	234,077
- Recycling of reserves upon deemed disposal of an associate	-	-	-	-	-	-	-	-	(127)	193	-	(66)	-	-	-
- Recycling of currency translation differences upon deemed disposal of an associate	-	-	-	-	-	-	1,688	-	-	-	-	-	1,688	-	1,688
- Recycling of currency translation differences upon disposal of subsidiaries	-	-	-	-	-	-	137	-	-	-	-	-	137	-	137
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	179,083	-	(127)	(57,545)	-	826,413	947,824	497,830	1,445,654
Balance at 30 September 2020 (unaudited)	15,919	238,781	(36,811)	282,190	3,234	74,714	(447,450)	96,800	(214,945)	48,679	631,110	8,636,937	9,329,166	5,700,340	15,029,514

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2021.

4. Financial risk management and fair value measurements

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2021.

There have been no changes in the risk management policies since year ended 31 March 2021.

4.2 Fair value estimation

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets that are measured at fair value at 30 September 2021:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income	6,538	–	375,563	382,101
Financial assets at fair value through profit or loss	–	–	1,034,330	1,034,330
Net fair values (unaudited)	<u>6,538</u>	<u>–</u>	<u>1,409,893</u>	<u>1,416,431</u>

The following table presents the Group's financial assets that are measured at fair value at 31 March 2021:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income	7,144	–	369,101	376,245
Financial assets at fair value through profit or loss	–	–	1,035,098	1,035,098
Net fair values (audited)	<u>7,144</u>	<u>–</u>	<u>1,404,199</u>	<u>1,411,343</u>

There have been no significant transfers between the levels in the reporting periods.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

4.3 Information about Level 3 fair value measurement

The fair value of financial assets at fair value through other comprehensive income was valued by APAC Appraisal and Consulting Limited, an independent firm of professional valuer, or by the Group. The Group used market approach to determine its fair value.

Financial assets at fair value through profit or loss mainly comprise wealth management products and structured deposits with various licensed banks in the People's Republic of China (the "PRC"). The Group mainly used income method of discounted cash flows to determine its fair value.

The movements during the period/year in the balance of these Level 3 fair value measurements are as follows:

	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Financial assets at fair value through other comprehensive income:		
Opening balance	369,101	349,486
Changes in fair value recognised in other comprehensive income	(3,615)	2,353
Acquisition of subsidiaries	1,205	–
Additions	–	816
Disposal	(21)	–
Exchange realignment	8,893	16,446
Ending balance	<u>375,563</u>	<u>369,101</u>
Financial assets at fair value through profit or loss:		
Opening balance	1,035,098	292,135
Net purchase/(disposal) and changes in fair value of financial assets at fair value through profit or loss	(768)	742,963
Ending balance	<u>1,034,330</u>	<u>1,035,098</u>

5. 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 (unaudited) HK\$'000	2020 (unaudited) 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>

* Government grants and subsidies mainly comprised unconditional subsidies for subsidising the Group's water supply and other businesses.

6. 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 comprises 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) HK\$'000	Environmental protection (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
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	<u>122,394</u>
Profit before income tax					2,091,365
Income tax expense					<u>(512,588)</u>
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) HK\$'000	Environmental protection (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
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	<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>

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.

7. Operating profit

Operating profit is arrived at after charging:

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2020 (unaudited) 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

8. Finance costs

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2020 (unaudited) 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
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)
	200,811	192,622

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

Note: The provision for PRC current income tax is based on a statutory income tax rate of 25% (2020: 25%) of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

Certain subsidiaries operating in the PRC enjoy a preferential income tax rate of 5% to 15% (2020: 5% to 15%) of their assessable income.

10. 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.

11. Dividend

Dividend attributable to the interim period:

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
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.

12. Property, plant and equipment, right-of-use assets and other intangible assets

During the six months ended 30 September 2021, the addition in property, plant and equipment amounted to HK\$101,839,000 (31 March 2021: HK\$565,022,000); right-of-use assets amounted to HK\$25,235,000 (31 March 2021: HK\$13,442,000); and other intangible assets amounted to HK\$2,300,396,000 (31 March 2021: HK\$3,675,171,000).

13. Interests in associates

The movement of the carrying amount of interests in associates for the six months ended 30 September 2021 was as follows:

	Six months ended 30 September
	2021 (unaudited) HK\$'000
Opening balance	2,517,567
Acquisition of subsidiaries	2,108
Disposals	(241)
Share of profit	122,394
Share of other comprehensive loss	(18,765)
Dividend paid	(48,638)
Exchange realignment	51,167
Ending balance	2,625,592

14. Financial assets at fair value through other comprehensive income

(i) *Equity investments at fair value through other comprehensive income*

	Original currency	As at	
		30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Listed equity securities in Hong Kong	HK\$	6,538	7,144
Unlisted equity securities outside Hong Kong	RMB	375,563	369,101
		382,101	376,245

(ii) *Amount recognised in consolidated income statement and other comprehensive income*

During the period, the following gain/(loss) was recognised in profit or loss and other comprehensive income.

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Change in fair value of financial assets at fair value through other comprehensive income	57,719	(57,738)
Dividend income from financial assets (<i>note 5</i>)	4,281	6,758

15. 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) HK\$'000	31 March 2021 (audited) HK\$'000
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.

16. Prepayments, deposits and other receivables

		As at	
	Notes	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Non-current			
Deposits for acquisition of equity securities		11,060	–
Prepayments and other receivables	(i)	742,410	719,713
		<u>753,470</u>	<u>719,713</u>
Current			
Prepayments		353,901	294,702
Other receivables	(ii)	1,879,765	1,584,996
		<u>2,233,666</u>	<u>1,879,698</u>

Notes:

- (i) The balances mainly represented the prepayments for city water supply and water environmental renovation construction.
- (ii) The balances mainly represented receivables from customers for sewage treatment fees and various municipal service charges on behalf of certain government authorities in the PRC; receivables from certain government authorities for funds advancements; and various other receivables.

The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The directors of the Company consider that the fair values of current portion of deposits and other receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

17. 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) HK\$'000	31 March 2021 (audited) HK\$'000
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.

As at 30 September 2021, the bills payables of HK\$572,820,000 (31 March 2021: HK\$611,954,000) were secured by the pledged bank deposits of HK\$313,799,000 (31 March 2021: HK\$363,885,000).

18. Accrued liabilities, deposits received and other payables

	As at	
	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Accrued liabilities	495,189	448,369
Deposits received	90,064	73,270
Other payables (<i>note</i>)	2,041,108	1,626,416
	<u>2,626,361</u>	<u>2,148,055</u>

Note: Other payables mainly included sewage treatment fees and various municipal service charges received on behalf of certain government authorities in the PRC of HK\$552,503,000 (31 March 2021: HK\$440,850,000), payables for other PRC tax surcharges and construction costs, and payables for the Company's final dividend of HK\$261,171,000 (31 March 2021: HK\$ Nil).

19. Borrowings

	Original currency	As at	
		30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Current			
Bank loans – unsecured	RMB	842,204	924,504
Bank loans – secured	RMB	1,405,719	1,186,642
Bank loans – unsecured	USD	1,195,829	539,067
Other loans – unsecured	RMB	14,458	14,647
Other loans – unsecured	USD	1,159,833	2,314,318
Other loans – secured	RMB	82,812	98,824
Other loans – secured	USD	91,765	91,764
Government loans – unsecured	RMB	60,547	92,081
		4,853,167	5,261,847
Non-current			
Bank loans – unsecured	RMB	1,138,907	1,184,561
Bank loans – secured	RMB	4,841,959	4,312,844
Bank loans – unsecured	USD	5,956,691	6,083,945
Bank loans – unsecured	HK\$	497,457	497,040
Other loans – unsecured	RMB	77,703	75,874
Other loans – unsecured	USD	1,510,767	–
Other loans – secured	RMB	245,249	254,119
Other loans – secured	USD	577,278	621,760
Government loans – unsecured	RMB	107,941	136,883
		14,953,952	13,167,026
		19,807,119	18,428,873

20. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2021 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over shares of certain subsidiaries of the Group;
- (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2021 was HK\$120,533,000 (31 March 2021: HK\$100,021,000);
- (d) charges over right-of-use assets in which their aggregate carrying amount as at 30 September 2021 was HK\$373,601,000 (31 March 2021: HK\$328,765,000);
- (e) charges over investment properties in which their aggregate carrying amount as at 30 September 2021 was HK\$1,184,185,000 (31 March 2021: HK\$1,087,026,000);
- (f) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2021 was HK\$1,998,873,000 (31 March 2021: HK\$1,863,229,000);
- (g) charges over properties held for sale in which their aggregate carrying amount as at 30 September 2021 was HK\$81,408,000 (31 March 2021: HK\$79,493,000);
- (h) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 30 September 2021 was HK\$248,193,000 (31 March 2021: HK\$245,882,000); and
- (i) charges over the Group's bank deposits in amount of HK\$440,651,000 as at 30 September 2021 (31 March 2021: HK\$515,117,000).

21. Share capital

	<i>Notes</i>	Number of shares '000	Par value HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each At 30 September 2021 and 31 March 2021		20,000,000	200,000
Issued and fully paid:			
Ordinary shares of HK\$0.01 each At 31 March 2020 (audited)		1,604,029	16,040
Repurchased and cancelled	(i)	(19,126)	(191)
At 31 March 2021 (audited)		1,584,903	15,849
Shares issued in respect of conversion of convertible bonds	(ii)	47,419	474
At 30 September 2021 (unaudited)		1,632,322	16,323

Notes:

- (i) During the year ended 31 March 2021, the Company repurchased a total of 19,126,000 ordinary shares of the Company at an aggregate cost of approximately HK\$116,878,000 (excluding expenses). The highest price paid and the lowest price paid were HK\$6.81 and HK\$5.52 per share respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the contributed surplus. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.
- (ii) During the six months ended 30 September 2021, approximately 47,419,000 shares were issued in respect of conversion of convertible bonds at HK\$7.62 per ordinary share of the Company.

22. Business combination

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 RMB34,887,000 (approximately HK\$42,033,000). Nanjing Aquacup and its subsidiaries and associates (“Nanjing Aquacup Group”) are principally engaged in pipeline direct drinking water business in the PRC. The acquisition was completed on 29 September 2021.

The acquisition was made as part of the Group’s strategy to facilitate the pipeline direct drinking water business in the PRC.

Details of fair value of the net identified assets acquired and goodwill are as follows:

	HK\$’000
Purchase consideration – settled by cash	42,033
Fair value of net identified assets acquired	<u>(25,509)</u>
Goodwill	<u>16,524</u>

The goodwill of HK\$16,524,000, which is not deductible for tax purposes, comprises the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

The fair value of identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	105,668	88,025
Right-of-use assets	24,880	8,822
Interests in associates	2,108	2,108
Financial assets at fair value through other comprehensive income	1,205	1,205
Other intangible assets	34,699	8,936
Inventories	25,007	25,007
Contract assets	23,162	23,162
Trade and bills receivables	62,321	62,321
Prepayments, deposits and other receivables	16,750	16,750
Cash and cash equivalents	4,646	4,646
Lease liabilities	(5,769)	(5,769)
Contract liabilities	(2,479)	(2,479)
Trade and bills payables	(35,152)	(35,152)
Accrued liabilities, deposits received and other payables	(27,041)	(27,041)
Due to associates	(361)	(361)
Due to non-controlling equity holders of subsidiaries	(28,331)	(28,331)
Borrowings	(63,365)	(63,365)
Provision for tax	(328)	(328)
Deferred tax liabilities	(14,866)	-
Non-controlling interests	(97,245)	(63,003)
Net identifiable assets attributed to the Group acquired	25,509	15,153
Cash and cash equivalents in business acquired		4,646
Cash outflow on acquisition of business		(42,033)
Net cash outflow arising on acquisition		(37,387)

None of the receivables have been impaired and it is expected the full contractual amount can be collected.

The acquisition-related costs expensed in the acquisition were not material and they had been expensed.

Since its acquisition, Nanjing Aquacup Group did not contribute any revenue and net profit to the Group for the period from 29 September 2021 to 30 September 2021.

Had the combination been taken place on 1 April 2021, the revenue and the net profit of the Group for the six months ended 30 September 2021 would have been HK\$6,509,680,000 and HK\$1,568,395,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2021, nor are they intended to be a projection of future results.

23. Related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim report, the Group had the following material related party transactions during the interim period:

(a) *Compensation of key management personnel of the Group:*

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	36,186	35,989
– Retirement scheme contribution	313	203
	36,499	36,192

(b) *Sales to an associate:*

	Six months ended 30 September	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Sales to an associate	48,276	36,489

The Group provided construction services of approximately HK\$48,276,000 (2020: HK\$36,489,000) to subsidiaries of Kangda International Environmental Company Limited, an associate of the Group. The services were made with reference to the terms negotiated between both parties.

24. Commitments

(i) Capital commitments

At the reporting date, the Group had the following capital commitments:

	As at	
	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Contracted, but not provided for		
– Other intangible assets	538,872	508,901
– Property, plant and equipment	15,039	18,001
	553,911	526,902

(ii) Operating lease arrangement

The Group leases its investment properties under operating lease arrangements for terms ranging from one to ten years. Certain leases contain an option to renew the lease and renegotiate the terms at the expiry dates or at dates mutually agreed between the Group and the lessees. None of the leases include contingent rentals.

At the reporting date, the Group had total future minimum lease receipts under non-cancellable operating leases falling due as follows:

	As at	
	30 September 2021 (unaudited) HK\$'000	31 March 2021 (audited) HK\$'000
Within one year	19,174	25,539
In the second to fifth years, inclusive	31,902	29,628
After five years	593	711
	51,669	55,878

25. Contingent liabilities

At the reporting date, the Group had no material contingent liabilities.

BUSINESS REVIEW, CORPORATE GOVERNANCE AND OTHER INFORMATION

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, Guangxi, 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), which are mainly in Hong Kong dollars, RMB and USD. 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.

SHARE OPTIONS

During the six months ended 30 September 2021, no share option was granted, outstanding, lapsed or cancelled under the share option scheme of the Company.

FOREIGN EXCHANGE RISK MANAGEMENT

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2021, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Shares of the Company

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Notes (i)&(ii))	Corporate and personal	470,880,301	–	28.85%
Ms. Ding Bin	Personal	5,700,000	–	0.35%
Ms. Liu Yu Jie	Personal	12,000,000	–	0.74%
Mr. Li Zhong (Notes (iii)&(iv))	Personal	37,627,457	–	2.31%
Mr. Zhao Hai Hu	Personal	4,306,000	–	0.26%
Ms. Wang Xiaoqin	Personal	8,950,000	–	0.55%
Ms. Ho Ping	Personal	978,000	–	0.06%

Shares of Kangda International, an associated corporation of the Company

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in Kangda International
		Long position	Short position	
Mr. Li Zhong	Personal	10,000,000	–	0.47%
Ms. Liu Yu Jie	Personal	10,000,000	–	0.47%
Mr. Duan Jerry Linnan	Personal	10,000,000	–	0.47%
Mr. Chau Kam Wing	Personal	2,000,000	–	0.09%

Notes:

- (i) These 470,880,301 shares consist of 218,044,301 shares held by Asset Full Resources Limited (“AFRL”), which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 252,836,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) Mr. Duan Chuan Liang and AFRL are also interested in USD1,500,000 senior notes of the Company due 2022 and USD6,000,000 senior notes of the Company due 2026.
- (iii) These 37,627,457 shares consist of 8,420,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.
- (iv) Mr. Li Zhong is also interested in 0.64% equity interest in Shenzhen Gold Tact Environmental Holdings Co. Ltd (a non-wholly owned subsidiary of the Company) through Total Happy Investment Limited, his controlled corporation.

Other than as disclosed above, none of the directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations ((within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO including interests or short positions which the directors and the chief executives were taken or deemed to have under the provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2021, so far as is known to any director or chief executive of the Company, the following persons had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholder	Capacity/ Nature of interest	Number of shares			Approximate percentage of shareholding in the Company		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	470,880,301	-	-	28.85%	-	-
Asset Full Resources Limited (Note)	Beneficial	218,044,301	-	-	13.36%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	17.84%	-	-

Note: These shares are beneficially owned by AFRL, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Mr. Duan Chuan Liang, the Chairman and executive director of the Company.

Save as disclosed above, as at 30 September 2021, so far as is known to any director or chief executive of the Company, no person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

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 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.

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 report, 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.