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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 2023**

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

		<b>2023</b> <i>HK\$ million</i>	<b>2022</b> <i>HK\$ million</i>	<b>Changes</b> <b>%</b> <i>Note (1)</i>
Revenue	Total	<b>6,846.0</b>	6,785.2	0.9
	Pipeline direct drinking water supply operations and pipeline direct drinking water supply installation and maintenance services	<b>182.3</b>	132.9	37.2
	Pipeline direct drinking water supply construction services	<b>831.7</b>	273.1	204.5
	City water supply operations and city water supply installation and maintenance services	<b>2,537.7</b>	2,685.8	(5.5)
	City water supply construction services	<b>2,083.7</b>	1,981.2	5.2
	Sewage treatment and drainage operation services	<b>178.2</b>	206.7	(13.8)
	Sewage treatment and water environmental renovation construction services	<b>450.5</b>	454.8	(0.9)
Segment profit	Pipeline direct drinking water supply	<b>335.3</b>	121.9	175.1
	City water supply	<b>1,204.8</b>	1,413.0	(14.7)
	Environmental protection	<b>250.8</b>	185.6	35.1
EBITDA ( <i>Note (2)</i> )		<b>2,700.6</b>	2,772.2	(2.6)
Profit for the period attributable to owners of the Company		<b>825.9</b>	970.4	(14.9)
Earnings per share – Basic		<b>HK50.60 cents</b>	HK59.45 cents	(14.9)

*Notes:* (1) The average exchange rate of Renminbi to Hong Kong Dollar adopted by the Group for financial reporting purpose depreciated by approximately 5.8% as compared with the last corresponding period.

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

\* For identification purpose only

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

As at 30 September 2023, approximately US\$358,000,000 has been drawdown under the syndicated loan facilities and was applied for repayment and early prepayment of certain bank facilities of the Company.

During the period under review, the Company continued to deepen its cooperation with the existing banks, broaden the financing channels by cooperating with new banks and optimise its debt structure by means of refinancing outstanding loans repayable within one year with long-term loans which could gradually enhance the Group's liquidity position.

In order to save more resources to capture the development of fast expanding pipeline direct drinking water supply business and provide consistent return to the equity shareholders of the Company, the board of directors has proposed to pay the equity holders of the Company an interim dividend of HK13 cents per share for the six months ended 30 September 2023.

## 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 2023, together with the comparative figures for the corresponding period in 2022, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2023</b>	<b>2022</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>	3	<b>6,845,957</b>	6,785,206
Cost of sales		<b>(4,322,057)</b>	(4,276,876)
<b>Gross profit</b>		<b>2,523,900</b>	2,508,330
Other income, net	3	<b>192,331</b>	247,787
Selling and distribution costs		<b>(128,692)</b>	(142,515)
Administrative expenses		<b>(441,651)</b>	(462,625)
Expected credit loss on trade receivables		<b>(19,000)</b>	—
<b>Operating profit</b>	5	<b>2,126,888</b>	2,150,977
Finance costs	6	<b>(376,570)</b>	(270,684)
Share of results of associates		<b>41,811</b>	126,245
<b>Profit before income tax</b>		<b>1,792,129</b>	2,006,538
Income tax expense	7	<b>(414,345)</b>	(496,122)
<b>Profit for the period</b>		<b>1,377,784</b>	1,510,416

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2023</b>	<b>2022</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<i>Notes</i>		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Profit for the period attributable to:</b>			
Owners of the Company		<b>825,896</b>	970,357
Non-controlling interests		<b>551,888</b>	540,059
		<u><b>1,377,784</b></u>	<u>1,510,416</u>
<b>Earnings per share for profit attributable to</b>			
<b>owners of the Company during the period</b>	<b>8</b>	<b><i>HK cents</i></b>	<b><i>HK cents</i></b>
Basic		<u><b>50.60</b></u>	<u>59.45</u>
Diluted		<u><b>50.60</b></u>	<u>59.45</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
<b>Profit for the period</b>	<b>1,377,784</b>	<b>1,510,416</b>
<b>Other comprehensive (loss)/income</b>		
<i>Items that have been or may be reclassified subsequently to profit or loss:</i>		
– Currency translation	(1,613,121)	(1,698,391)
– Recycling of currency translation differences upon disposal or deregistration of subsidiaries, net	26	12
<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	(112,278)	(39,802)
– Share of other comprehensive income of an associate	1,063	12,377
<b>Other comprehensive loss for the period, net of tax</b>	<b>(1,724,310)</b>	<b>(1,725,804)</b>
<b>Total comprehensive loss for the period</b>	<b>(346,526)</b>	<b>(215,388)</b>
<b>Total comprehensive (loss)/income attributable to:</b>		
Owners of the Company	(463,887)	(330,578)
Non-controlling interests	117,361	115,190
	<b>(346,526)</b>	<b>(215,388)</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	30 September	31 March
	2023	2023
	(unaudited)	(audited)
Notes	HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3,264,706	3,338,119
Right-of-use assets	1,285,847	1,302,999
Investment properties	1,300,927	1,362,198
Investment in associates	2,303,484	2,402,532
Financial assets at fair value through other comprehensive income	427,704	461,445
Goodwill	1,368,934	1,419,442
Other intangible assets	29,895,605	29,122,981
Prepayments, deposits and other receivables	661,276	721,660
Contract assets	902,609	1,358,496
Receivables under service concession arrangements	1,701,047	1,788,146
	<b>43,112,139</b>	<b>43,278,018</b>
<b>Current assets</b>		
Properties under development	1,184,763	1,235,634
Properties held for sale	1,046,996	1,133,738
Inventories	615,420	650,353
Contract assets	2,439,264	1,481,535
Receivables under service concession arrangements	114,922	122,833
Trade and bills receivables	2,320,092	1,954,038
Financial assets at fair value through profit or loss	326,137	653,320
Amounts due from non-controlling equity holders of subsidiaries	217,466	248,585
Amounts due from associates	391,372	271,744
Prepayments, deposits and other receivables	2,671,069	2,635,409
Pledged deposits	404,796	514,260
Cash and cash equivalents	5,433,180	6,984,821
	<b>17,165,477</b>	<b>17,886,270</b>

		As at	
		30 September	31 March
		2023	2023
		(unaudited)	(audited)
	Notes	HK\$'000	HK\$'000
<b>Current liabilities</b>			
Lease liabilities		37,415	37,978
Contract liabilities		1,430,609	1,401,864
Trade and bills payables	11	6,241,838	5,403,857
Accrued liabilities, deposits received and other payables		2,974,589	3,131,649
Amounts due to associates		29,884	34,843
Borrowings		6,833,052	8,020,540
Amounts due to non-controlling equity holders of subsidiaries		309,086	120,523
Provision for tax		3,058,150	3,027,151
		<u>20,914,623</u>	<u>21,178,405</u>
<b>Net current liabilities</b>		<u>(3,749,146)</u>	<u>(3,292,135)</u>
<b>Total assets less current liabilities</b>		<u>39,362,993</u>	<u>39,985,883</u>
<b>Non-current liabilities</b>			
Borrowings		16,096,095	15,607,292
Lease liabilities		324,197	343,121
Contract liabilities		278,864	317,692
Amounts due to non-controlling equity holders of subsidiaries		923,269	1,078,213
Deferred government grants		180,149	197,354
Deferred tax liabilities		1,216,040	1,270,077
		<u>19,018,614</u>	<u>18,813,749</u>
<b>Net assets</b>		<u>20,344,379</u>	<u>21,172,134</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		16,323	16,323
Reserves		12,221,511	12,976,831
		<u>12,237,834</u>	<u>12,993,154</u>
<b>Non-controlling interests</b>		<u>8,106,545</u>	<u>8,178,980</u>
<b>Total equity</b>		<u>20,344,379</u>	<u>21,172,134</u>

Notes:

## 1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2023 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 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 September 2023, the Group’s current liabilities exceeded its current assets by approximately HK\$3,749,146,000 (31 March 2023: HK\$3,292,135,000). 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 of the internal financial resources, available loan facilities and offers, and new loan facilities currently under negotiation. The Group had unused loan facilities and offers of approximately HK\$8,254.0 million as at 30 September 2023. The directors of the Company believe that the Group will be able to renew or extend its existing loan facilities and to drawdown from the unused loan facilities and offers when needed. The Group will also continue to seek new debt financing and bank borrowings at terms acceptable to the Group. The Group therefore continues to adopt the going concern basis in preparing its unaudited 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 2023 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 2023.

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

HKFRS 17	Insurance contracts
Amendments to HKAS 8	Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
Amendments to HKAS 12	Income Taxes: Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	Income Taxes: International tax reform – Pillar Two model rules

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

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



### 3. REVENUE AND OTHER INCOME

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

	<b>Six months ended 30 September</b>	
	<b>2023</b>	<b>2022</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue:</b>		
<b>Point in time</b>		
City water supply operations	1,614,677	1,688,473
Pipeline direct drinking water supply operations	124,662	87,307
Sales of goods	250,212	438,185
Sales of properties	74,917	360,697
Others	111,078	126,288
	<u>2,175,546</u>	<u>2,700,950</u>
<b>Overtime</b>		
City water supply installation and maintenance services	922,980	997,330
Pipeline direct drinking water supply installation and maintenance services	57,631	45,568
City water supply construction services	2,083,743	1,981,233
Pipeline direct drinking water supply construction services	831,699	273,140
Sewage treatment and drainage operation services	178,182	206,737
Sewage treatment and water environmental renovation construction services	450,469	454,815
Hotel and rental income	56,906	49,728
Finance income	19,981	20,987
Handling income	19,343	19,284
Others	49,477	35,434
	<u>4,670,411</u>	<u>4,084,256</u>
<b>Total</b>	<u><u>6,845,957</u></u>	<u><u>6,785,206</u></u>
<b>Other income, net:</b>		
Interest income	88,250	82,796
Government grants and subsidies	99,940	134,047
Amortisation of deferred government grants	6,492	5,386
Dividend income from financial assets	3,860	7,574
(Loss)/gain on deregistration or disposal of subsidiaries, net	(6,515)	675
Loss on disposal of property, plant and equipment, net	(1,307)	(233)
Loss on disposal of right-of-use assets	(406)	—
(Loss)/gain on disposal of other intangible assets, net	(10)	9,622
Miscellaneous income, net	2,027	7,920
<b>Total</b>	<u><u>192,331</u></u>	<u><u>247,787</u></u>

#### 4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors, which are the Group's chief operating decision-maker for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

- (i) "City water supply" involves the provision of city water supply operations and construction, installation and maintenance services and other services;
- (ii) "Pipeline direct drinking water supply" involves the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services and other services;
- (iii) "Environmental protection" involves the provision of sewage treatment and drainage operations and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management;
- (iv) "Main contractor construction" involves the provision of municipal public construction services by the Group's subsidiary which possesses Grade 1 main contractor qualification; and
- (v) "Property development and investment" segment involves development of properties for sale and investment in properties for long-term rental yields or for capital appreciation.

In the second half of the year ended 31 March 2023, the Group (1) renamed "City water supply operations and construction" segment to "City water supply" segment; (2) began separately presenting the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services and other services under "Pipeline direct drinking water supply" segment; and (3) began separately presenting the provision of municipal public construction services by the Group's subsidiary which possesses grade 1 main contractor qualification under "Main contractor construction" segment. These changes are consistent with the chief operating decision-maker's view of the business. Prior period's corresponding segment information that was presented for comparative purpose has been restated.

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments".

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

Segment assets exclude corporate assets (mainly comprises cash and cash equivalents and pledged deposits), financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and investment in associates.

Unallocated corporate income mainly comprises interest income and dividend income from financial assets.

Unallocated corporate expenses mainly comprise salaries and wages, operating leases and other operating expenses of the Company and the investment holding companies.

**For the period ended 30 September 2023 (unaudited)**

	City water supply <i>HK\$'000</i>	Pipeline direct drinking water supply <i>HK\$'000</i>	Environmental protection <i>HK\$'000</i>	Main contractor construction <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	All other segments <i>HK\$'000</i>	Inter-segment elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>								
From external customers	4,210,008	1,027,432	637,413	517,549	85,932	367,623	-	6,845,957
From inter-segment	41,727	4,375	-	1,025,632	-	-	(1,071,734)	-
<b>Segment revenue</b>	<u>4,251,735</u>	<u>1,031,807</u>	<u>637,413</u>	<u>1,543,181</u>	<u>85,932</u>	<u>367,623</u>	<u>(1,071,734)</u>	<u>6,845,957</u>
<b>Segment profit</b>	<u>1,204,834</u>	<u>335,298</u>	<u>250,807</u>	<u>359,814</u>	<u>15,323</u>	<u>6,645</u>	<u>-</u>	<u>2,172,721</u>
Unallocated corporate income								92,547
Unallocated corporate expense								(138,380)
Finance costs								(376,570)
Share of results of associates	12,932	(264)	27,987	-	-	1,156	-	41,811
Profit before income tax								1,792,129
Income tax expense								(414,345)
<b>Profit for the period</b>								<u>1,377,784</u>
<b>Total segment assets</b>	<u>32,184,754</u>	<u>3,363,360</u>	<u>5,128,633</u>	<u>2,480,296</u>	<u>3,951,466</u>	<u>3,148,261</u>	<u>-</u>	<u>50,256,770</u>

For the period ended 30 September 2022 (unaudited)

	City water supply HK\$'000	Pipeline direct drinking water supply HK\$'000	Environmental protection HK\$'000	Main contractor construction HK\$'000	Property development and investment HK\$'000	All other segments HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
<b>Revenue</b>								
From external customers	4,260,690	394,272	531,824	695,124	373,356	529,940	–	6,785,206
From inter-segment	73,941	889	–	799,663	–	–	(874,493)	–
<b>Segment revenue</b>	<u>4,334,631</u>	<u>395,161</u>	<u>531,824</u>	<u>1,494,787</u>	<u>373,356</u>	<u>529,940</u>	<u>(874,493)</u>	<u>6,785,206</u>
<b>Segment profit/(loss)</b>	<u>1,413,025</u>	<u>121,853</u>	<u>185,610</u>	<u>444,530</u>	<u>56,212</u>	<u>(15,902)</u>	<u>–</u>	<u>2,205,328</u>
Unallocated corporate income								94,537
Unallocated corporate expense								(148,888)
Finance costs								(270,684)
Share of results of associates	56,077	(106)	68,540	–	–	1,734	–	126,245
Profit before income tax								2,006,538
Income tax expense								(496,122)
<b>Profit for the period</b>								<u>1,510,416</u>
<b>Total segment assets</b>	<u>30,192,119</u>	<u>1,629,853</u>	<u>4,287,186</u>	<u>1,759,572</u>	<u>4,053,685</u>	<u>3,283,297</u>	<u>–</u>	<u>45,205,712</u>

The Group's revenue from external customers and its non-current assets located in geographical areas other than the People's Republic of China (the "PRC") are less than 10% of the aggregate amount of all segments.

## 5. OPERATING PROFIT

Operating profit is arrived at after charging:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2023</b>	<b>2022</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation of property, plant and equipment	<b>74,869</b>	77,259
Depreciation of right-of-use assets	<b>37,151</b>	35,167
Amortisation of other intangible assets	<b>419,886</b>	382,538

## 6. FINANCE COSTS

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2023</b>	<b>2022</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank loans	<b>527,310</b>	399,008
Interest on other loans	<b>125,963</b>	109,375
Interest on amounts due to non-controlling equity holders of subsidiaries	<b>2,670</b>	2,901
Interest on lease liabilities	<b>9,157</b>	8,856
Total borrowing costs	<b>665,100</b>	520,140
Less: interest capitalised included in property, plant and equipment, investment properties, other intangible assets and properties under development	<b>(288,530)</b>	(249,456)
	<b>376,570</b>	270,684

## 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 (2022: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2023</b>	<b>2022</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current income tax		
– the PRC	<b>394,914</b>	431,929
Deferred tax	<b>19,431</b>	64,193
Total income tax expense	<b>414,345</b>	496,122

## 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\$825,896,000 (2022: HK\$970,357,000) and the weighted average of 1,632,322,000 (2022: 1,632,322,000) ordinary shares in issue during the period.

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the financial period ended 30 September 2023 and 2022.

## 9. DIVIDEND

### Dividend attributable to the interim period

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2023</b>	<b>2022</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend		
– HK\$0.13 (2022: HK\$0.16) per ordinary share	<b>212,202</b>	261,172

The interim dividend proposed after the reporting date for the financial period ended 30 September 2023 and 2022 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:

	<b>As at</b>	
	<b>30 September</b>	<b>31 March</b>
	<b>2023</b>	<b>2023</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 to 90 days	<b>1,348,267</b>	1,072,772
91 to 180 days	<b>264,311</b>	171,504
Over 180 days	<b>707,514</b>	709,762
	<b>2,320,092</b>	1,954,038

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for certain construction, installation and maintenance 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:

	<b>As at</b>	
	<b>30 September</b>	<b>31 March</b>
	<b>2023</b>	<b>2023</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 to 90 days	<b>3,414,058</b>	3,085,013
91 to 180 days	<b>841,830</b>	874,970
Over 180 days	<b>1,985,950</b>	1,443,874
	<b>6,241,838</b>	5,403,857

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\$0.13 per ordinary share (2022: HK\$0.16 per ordinary share) for the six months ended 30 September 2023. The interim dividend is expected to be paid on or about Friday, 17 May 2024 to the shareholders whose names appear on the register of members on Friday, 2 February 2024.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 31 January 2024 to Friday, 2 February 2024 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 2023, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 30 January 2024.

## **BUSINESS REVIEW**

The Group's total revenue continuously increased from HK\$6,785.2 million for the six months ended 30 September 2022 to HK\$6,846.0 million for the six months ended 30 September 2023, representing a steady increase of 0.9%. The Group continued its strategy to focus on core business. For the period under review, the Group recorded a significant growth in its "Pipeline direct drinking water supply" segment. The total revenue attributable to the "Pipeline direct drinking water supply" segment increased from HK\$394.3 million to HK\$1,027.4 million. The total revenue attributable to the "City water supply", "Pipeline direct drinking water supply" and "Environmental protection" segments increased from HK\$5,186.8 million to HK\$5,874.9 million. This represented a steady and continuous growth of segments revenue by 13.3%, which was mainly attributable to the successful strategies of the Group through implementation of the urban-rural water supply integration and supply-drainage integration and active development in pipeline direct drinking water supply business to establish a twin-driver business portfolio of water supply and pipeline direct drinking water.

In the second half of the year ended 31 March 2023, the Group (1) renamed "City water supply operations and construction" segment to "City water supply" segment; (2) began separately presenting the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services and other services under "Pipeline direct drinking water supply" segment; and (3) began separately presenting the provision of municipal public construction services by the Group's subsidiary which possesses grade 1 main contractor qualification under "Main contractor construction" segment. These changes are consistent with the chief operating decision-maker's view of the business. Prior period's corresponding segment information that was presented for comparative purpose has been restated.



**(i) City Water Supply Business Analysis**

City water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Hubei, Henan, Hebei, Guangxi, Guizhou, Hainan, Jiangsu, Jiangxi, Guangdong (including Shenzhen), Chongqing, Shandong, Shanxi and Heilongjiang.

For the period under review, the revenue from city water supply segment amounted to HK\$4,210.0 million (2022: HK\$4,260.7 million), representing a slightly decrease of 1.2% as compared with the last corresponding period. The city water supply segment profit amounted to HK\$1,204.8 million (2022: HK\$1,413.0 million), representing a decrease of 14.7% as compared with the last corresponding period. This was mainly because of overall decrease in installation and maintenance work during the period.

**(ii) Pipeline Direct Drinking Water Supply Business Analysis**

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

For the period under review, the revenue from pipeline direct drinking water supply segment amounted to HK\$1,027.4 million (2022: HK\$394.3 million), representing a significant increase of 160.6% as compared with the last corresponding period. The pipeline direct drinking water supply segment profit amounted to HK\$335.3 million (2022: HK\$121.9 million), representing a significant increase of 175.1% as compared with the last corresponding period. This was mainly because of procurement of more installation and maintenance and construction works and contribution from fast expanding pipeline direct drinking water supply projects during the period.

**(iii) Environmental Protection Business Analysis**

Environmental protection projects of the Group are well spread in various provincial cities and regions across China, including Beijing, Tianjin, Guangdong (including Shenzhen), Henan, Hebei, Hunan, Hubei, Guizhou, Jiangxi, Shaanxi, Heilongjiang and Sichuan.

For the period under review, the revenue from environmental protection segment amounted to HK\$637.4 million (2022: HK\$531.8 million), representing a sharp increase of 19.9% as compared with the last corresponding period. The environmental protection segment profit amounted to HK\$250.8 million (2022: HK\$185.6 million), representing a significant increase of 35.1% as compared with the last corresponding period. This was mainly due to expansion of sewage treatment infrastructure in a national level petrochemical area serving by the Group in current period.

**(iv) Main Contractor Construction Business Analysis**

Main contractor construction projects were carried out by the Group's subsidiary which possesses Grade 1 main contractor qualification for nationwide municipal public construction works in China.

For the period under review, the revenue from external customers of the main contractor construction segment amounted to HK\$517.5 million (2022: HK\$695.1 million), representing a significant decrease of 25.5% as compared with the last corresponding period. The main contractor construction segment profit amounted to HK\$359.8 million (2022: HK\$444.5 million), representing a decrease of 19.1% as compared with the last corresponding period, which was mainly due to the decrease of overall gross profit margin of construction work for water supply and sewage treatment projects in current period.

**(v) 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\$85.9 million (2022: HK\$373.4 million). The total property business segment profit amounted to HK\$15.3 million (2022: HK\$56.2 million), representing a significant decrease of 72.7% as compared with the last corresponding period. This was mainly due to the decrease in sales of property projects in current period.

For the period under review, the share of results of Kangda International Environmental Company Limited, whose ordinary shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), amounted to HK\$25.6 million (2022: HK\$66.9 million).

## PROSPECTS

Looking forward, the domestic economy is expected to grow slower than expected due to a number of uncertainties, including the volatile and unpredictable international political and economic conditions, the prolonged period of high interest rates in major overseas economies and weakening external demand. On the other hand, the central government is expected to adopt proactive measures, including the issuance of additional government bonds to support local governments for major infrastructure projects as part of post-disaster recovery, to continue to boost the overall economic development and to ensure that the economy can maintain at a reasonable level of sustainable growth in the future.

As the national economy enters a stage of green, low-carbon and high-quality development, public demand for high-quality and healthy drinking water continues to grow; at the same time, a new national standard for drinking water has been implemented since April this year. The provision of high-quality water supply service and products is one of the major development directions of the domestic water supply industry in the future, among which pipeline direct drinking water will be the main driver leading the upgrade of Chinese water consumption habit towards low-carbon consumption. The Group has a pioneering advantage in the field of pipeline direct drinking water, and is the only water enterprise in the PRC that has expanded at a national level, which is in line with the current development mode and market demand, and will bring a rare opportunity for the rapid growth of the Company's business development.

According to an independent industry consultant engaged by the Group, it is estimated that the size of the PRC's pipeline direct drinking water market (based on the sales amount of water volume sold) will reach RMB14.6 billion by 2027, representing ample room for development. The Group will take advantage of favourable policies and market opportunities, focus on the principal goal of dual water supply mainly through operation, achieve a sustainable development model with a combination of light and heavy assets, strengthen technological innovation and green and low-carbon development, enhance operational efficiency and synergies, work hard to satisfy the people's aspirations for a better livelihood, and create favourable returns for shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 September 2023, the Group maintained a satisfactory liquidity level. As at 30 September 2023, the Group has total cash and cash equivalents and pledged deposits of approximately HK\$5,838.0 million (31 March 2023: HK\$7,499.1 million), which are mainly in Hong Kong dollars, Renminbi and United States dollars. The gearing ratio, calculated as a percentage of total liabilities to total assets, is 66.3% (31 March 2023: 65.4%) as at 30 September 2023.

As at 30 September 2023, the Group's current liabilities exceeded its current assets by HK\$3,749.1 million (31 March 2023: net current liabilities of HK\$3,292.1 million). It was mainly due to i) maturity of the outstanding principal amount of a syndicated bank loan amounting to approximately US\$141.8 million (approximately HK\$1,100 million) due within one year; ii) maturity of various long-term bank loans and new short-term bank loans due within one year; and iii) increased capital expenditure for the fast expanding pipeline direct drinking water business during the six months ended 30 September 2023. In the opinion of the directors of the Company, after taken into account the internal financial resources, available loan facilities and offers, and new loan facilities currently under negotiation, the Group will have sufficient working capital to meet its financial obligation in full as they fall due in the next twelve months.

As at 30 September 2023, the Group's aggregate outstanding borrowings amounted to HK\$22,929.1 million (31 March 2023: HK\$23,627.8 million), which are mainly in Hong Kong dollars, Renminbi and United States dollars. The decrease in overall borrowings was mainly due to repayment of indebtedness of the Group. 70.0% of such outstanding borrowings was arranged on floating rate basis and the balance of 30.0% was at fixed rate basis. According to the repayment schedule, HK\$6,833.1 million was repayable within one year and the balance of HK\$16,096.1 million was repayable after one year. As at 30 September 2023, the total unused loan facilities and offers available to the Group amounted to HK\$8,254.0 million (31 March 2023: HK\$7,579.4 million).

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

As at 30 September 2023, approximately US\$358,000,000 has been drawdown under the syndicated loan facilities and was applied for repayment and early prepayment of certain bank facilities of the Company.

During the period under review, the Company continued to deepen its cooperation with the existing banks, broaden the financing channels by cooperating with new banks and optimise its debt structure by means of refinancing outstanding loans repayable within one year with long-term loans which could gradually enhance the Group's liquidity position.

## **HUMAN RESOURCES**

As at 30 September 2023, the Group has employed approximately 11,600 staff. Most of them are stationed in the PRC and Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

The Company had adopted a share option scheme to incentivise the directors, senior management and employees of the Group. During the period ended 30 September 2023, no option was granted by the Company pursuant to the share option scheme.

## **TREASURY AND FOREIGN EXCHANGE RISK MANAGEMENT**

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

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

Majority of the subsidiaries of the Company operates in the PRC with most of its transactions denominated and settled in RMB. Fluctuations of exchange rates may result in exchange gain/loss and would also 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 foreign exchange markets, the proportion of its non-Renminbi borrowings and optimising the treasury and financial management strategies.

## **CORPORATE GOVERNANCE**

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

During the six months ended 30 September 2023, 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 15 September 2023 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 2023 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**

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 four 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 2023 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, 27 November 2023

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