



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855



Interim Report
2023/24

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

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

Non-executive

Mr. Zhao Hai Hu
Mr. Makoto Inoue
Ms. Wang Xiaoqin
Ms. Liu Yu Jie (re-designated to
non-executive director with effect from
12 April 2023)

Independent Non-executive

Mr. Chau Kam Wing
Mr. Siu Chi Ming
Ms. Ho Ping
Ms. Zhou Nan

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

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
17/F, Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

LEGAL ADVISERS

As to Bermuda law
Conyers Dill & Pearman

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

PRINCIPAL BANKER

Asian Development Bank
Australia and New Zealand Banking
Group Limited
Bank of Communications (Hong Kong) Limited
Bank of East Asia
China CITIC Bank

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

**City water supply business**

- Serving an estimated population of more than 30 million people
- Water pipelines of approximately 149,000 km

**Pipeline direct drinking water supply business**

- Serving an estimated population of approximately 7 million people

**Environmental protection business**

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



Drainage operation



FINANCIAL HIGHLIGHTS

	Six months ended 30 September		
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000	Change
RESULTS HIGHLIGHTS			
Revenue	6,845,957	6,785,206	0.9%
Gross profit	2,523,900	2,508,330	0.6%
Profit for the period	1,377,784	1,510,416	(8.8)%
Profit for the period attributable to owners of the Company	825,896	970,357	(14.9)%
Basic earnings per share (HK cents)	50.60	59.45	(14.9)%
Diluted earnings per share (HK cents)	50.60	59.45	(14.9)%
Interim dividend (HK cents)	13	16	(18.8)%

	As at		
	30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000	Change
BALANCE SHEET HIGHLIGHTS AND RATIOS			
Total assets	60,277,616	61,164,288	(1.4)%
Total liabilities	39,933,237	39,992,154	(0.1)%
Net assets	20,344,379	21,172,134	(3.9)%
Net assets per share ¹	7.50	7.96	(5.8)%
Current ratio	0.82	0.84	
Gearing ratio ²	66.3%	65.4%	

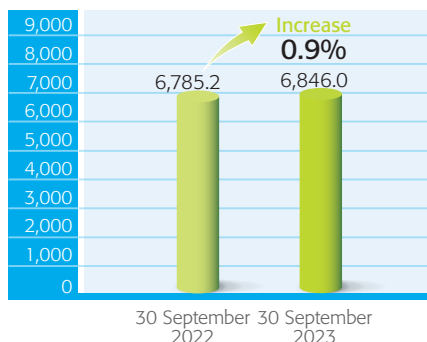
¹ Net assets per share = $\frac{\text{Equity attributable to owners of the Company}}{\text{Number of issued shares at period/year end}}$

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

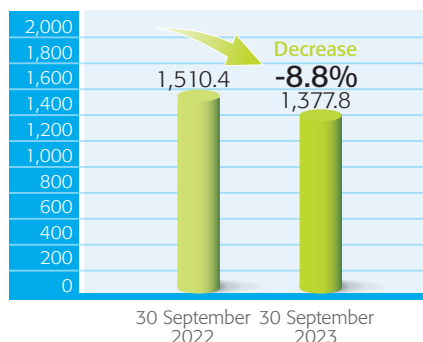
FINANCIAL HIGHLIGHTS

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

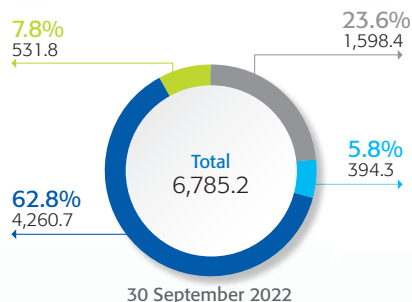
Total revenue (HK\$ million)



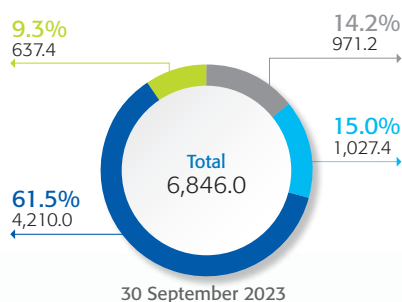
Total profit (HK\$ million)



Total segment revenue (HK\$ million)



Total segment revenue (HK\$ million)



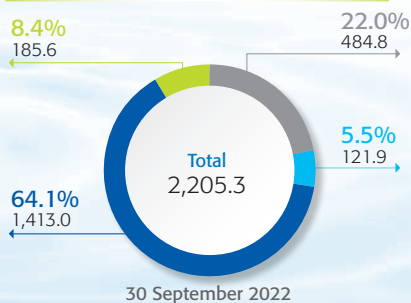
City water supply business

Pipeline direct drinking water supply business

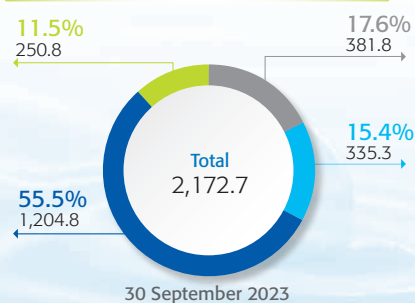
Environmental protection business

Main contractor construction and others

Total segment profit (HK\$ million)



Total segment profit (HK\$ million)



City water supply business

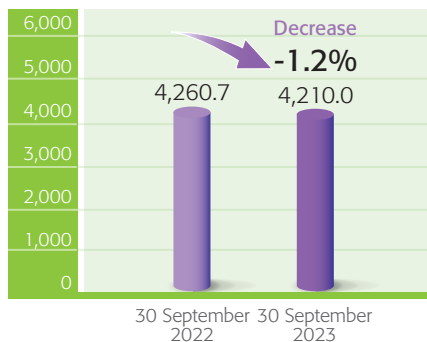
Pipeline direct drinking water supply business

Environmental protection business

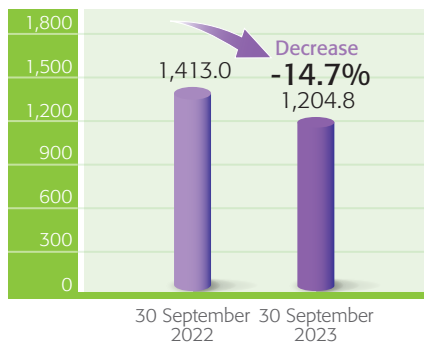
Main contractor construction and others

1. City Water Supply Business Analysis

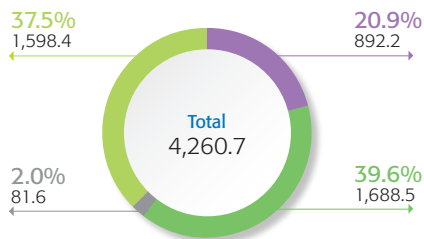
Revenue (HK\$ million)



Profit (HK\$ million)

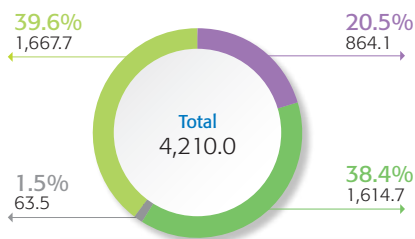


Revenue by nature (HK\$ million)



30 September 2022

Revenue by nature (HK\$ million)

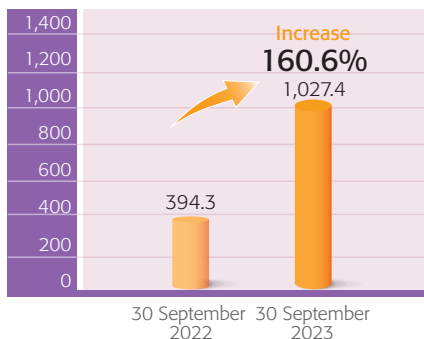


30 September 2023

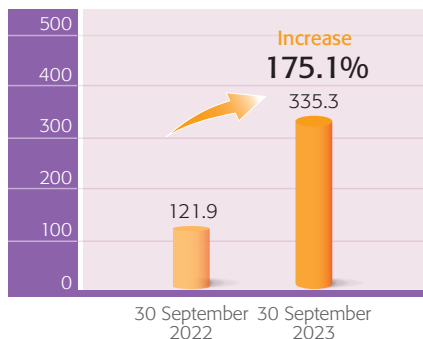
City water supply operations < City water supply installation and maintenance services < City water supply construction services < Others

2. Pipeline Direct Drinking Water Supply Business Analysis

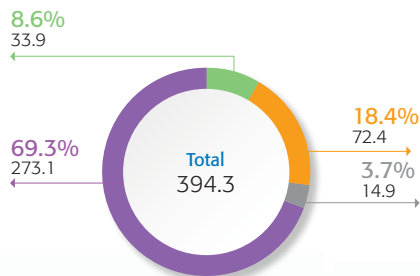
Revenue (HK\$ million)



Profit (HK\$ million)

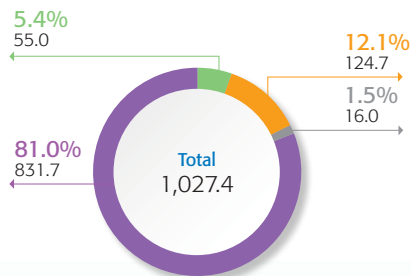


Revenue by nature (HK\$ million)



30 September 2022

Revenue by nature (HK\$ million)



30 September 2023

Pipeline direct drinking water supply operations

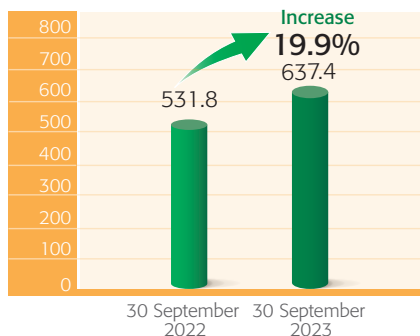
Pipeline direct drinking water supply installation and maintenance services

Pipeline direct drinking water supply construction services

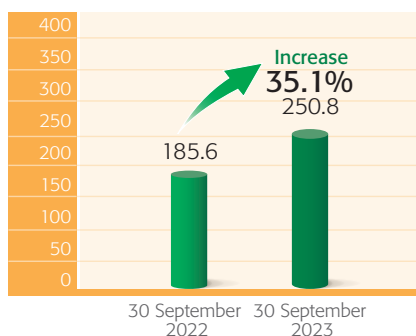
Others

3. Environmental Protection Business Analysis

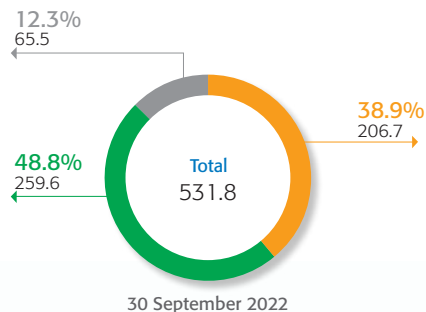
Revenue (HK\$ million)



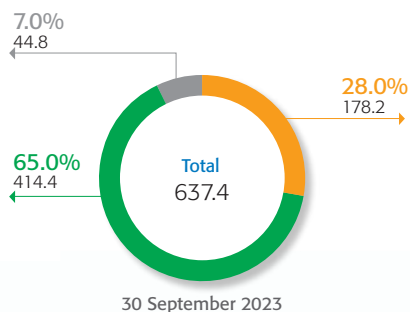
Profit (HK\$ million)



Revenue by nature (HK\$ million)



Revenue by nature (HK\$ million)



Sewage treatment and drainage operations 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 2023, together with the comparative figures for the corresponding period in 2022, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
	Notes		
Revenue	5	6,845,957	6,785,206
Cost of sales		(4,322,057)	(4,276,876)
Gross profit		2,523,900	2,508,330
Other income, net	5	192,331	247,787
Selling and distribution costs		(128,692)	(142,515)
Administrative expenses		(441,651)	(462,625)
Expected credit loss on trade receivables		(19,000)	—
Operating profit	7	2,126,888	2,150,977
Finance costs	8	(376,570)	(270,684)
Share of results of associates		41,811	126,245
Profit before income tax		1,792,129	2,006,538
Income tax expense	9	(414,345)	(496,122)
Profit for the period		1,377,784	1,510,416

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Profit for the period	1,377,784	1,510,416
Other comprehensive (loss)/income		
<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
Other comprehensive loss for the period, net of tax	(1,724,310)	(1,725,804)
Total comprehensive loss for the period	(346,526)	(215,388)
Total comprehensive (loss)/income attributable to:		
Owners of the Company	(463,887)	(330,578)
Non-controlling interests	117,361	115,190
	(346,526)	(215,388)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	3,264,706	3,338,119
Right-of-use assets	12	1,285,847	1,302,999
Investment properties		1,300,927	1,362,198
Investment in associates	13	2,303,484	2,402,532
Financial assets at fair value through other comprehensive income	14	427,704	461,445
Goodwill		1,368,934	1,419,442
Other intangible assets	12	29,895,605	29,122,981
Prepayments, deposits and other receivables	16	661,276	721,660
Contract assets		902,609	1,358,496
Receivables under service concession arrangements		1,701,047	1,788,146
		43,112,139	43,278,018
Current assets			
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	15	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	16	2,671,069	2,635,409
Pledged deposits		404,796	514,260
Cash and cash equivalents		5,433,180	6,984,821
		17,165,477	17,886,270

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
	Notes	30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Current liabilities			
Lease liabilities		37,415	37,978
Contract liabilities		1,430,609	1,401,864
Trade and bills payables	17	6,241,838	5,403,857
Accrued liabilities, deposits received and other payables	18	2,974,589	3,131,649
Amounts due to associates		29,884	34,843
Borrowings	19	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
		20,914,623	21,178,405
Net current liabilities		(3,749,146)	(3,292,135)
Total assets less current liabilities		39,362,993	39,985,883
Non-current liabilities			
Borrowings	19	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
		19,018,614	18,813,749
Net assets		20,344,379	21,172,134

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

		As at	
		30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
	Notes		
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	16,323	16,323
Reserves		12,221,511	12,976,831
		12,237,834	12,993,154
Non-controlling interests		8,106,545	8,178,980
Total equity		20,344,379	21,172,134

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 September	
	2023	2022
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	1,153,083	1,292,878
Net cash outflow from investing activities	(2,398,625)	(1,797,828)
Net cash (outflow)/inflow from financing activities	(169,749)	862,658
(Decrease)/increase in cash and cash equivalents	(1,415,291)	357,708
Cash and cash equivalents at beginning of period	6,984,821	6,022,821
Effect of foreign exchange rates, net	(136,350)	(77,777)
Cash and cash equivalents at end of period	<u>5,433,180</u>	<u>6,302,752</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<u>5,433,180</u>	<u>6,302,752</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company													
	Share capital HK\$'000	Proposed dividend HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Share options reserve HK\$'000	Other reserves HK\$'000	Financial assets at fair value through other comprehensive income revaluation reserve HK\$'000	Statutory reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 April 2023 (audited)	16,323	295,818	281,716	3,304	32,373	(179,136)	96,808	(74,418)	8,149	1,331,059	11,183,158	12,993,154	8,178,980	21,172,134
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	16,556	16,556
Transactions with non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	2,385	-	-	-	2,385	(129,156)	(126,771)
Capital injection by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	6,851	6,851
Final dividend approved	-	(293,818)	-	-	-	-	-	-	-	-	-	(293,818)	-	(293,818)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(84,047)	(84,047)
Transactions with owners	-	(293,818)	-	-	-	-	-	2,385	-	-	-	(291,433)	(189,796)	(481,229)
Proposed interim dividend	-	212,202	-	-	-	-	-	-	-	-	(212,202)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	825,896	825,896	551,888	1,377,784
Other comprehensive (loss)/income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 14(i))	-	-	-	-	-	-	-	-	(112,278)	-	-	(112,278)	-	(112,278)
- Currency translation	-	-	-	-	-	(1,178,594)	-	-	-	-	-	(1,178,594)	(434,527)	(1,613,121)
- Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	1,063	-	-	1,063	-	1,063
- Recycling of currency translation differences upon disposal of a subsidiary	-	-	-	-	-	26	-	-	-	-	-	26	-	26
Total comprehensive (loss)/income for the period	-	-	-	-	-	(1,178,568)	-	-	(111,215)	-	825,896	(463,887)	117,361	(346,526)
Balance at 30 September 2023 (unaudited)	16,323	212,202	281,716	3,304	32,373	(1,357,704)	96,808	(72,033)	(103,066)	1,331,059	11,796,852	12,237,834	8,106,545	20,344,379

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Equity attributable to owners of the Company											Non-controlling interests	Total equity
	Share capital	Proposed dividend	Share premium	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	
	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 2022 (audited)	16,323	293,818	281,716	3,304	32,373	1,077,273	96,808	(77,649)	32,825	1,123,518	10,088,903	12,969,212	20,482,744
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	36,395	-	-	-	36,395	2,587
Disposal/(deemed disposal)/deregistration of interests in subsidiaries	-	-	-	-	-	-	-	(549)	-	-	-	(549)	350
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	24,131	24,131
Final dividend approved	-	(293,818)	-	-	-	-	-	-	-	-	-	(293,818)	(293,818)
Dividend paid to non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(123,820)	(123,820)
Transactions with owners	-	(293,818)	-	-	-	-	-	35,846	-	-	-	(257,972)	(390,570)
Proposed interim dividend	-	261,172	-	-	-	-	-	-	-	-	(261,172)	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	970,357	970,357	1,510,416
Other comprehensive (loss)/income	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income (note 14(i))	-	-	-	-	-	-	-	-	(39,802)	-	-	(39,802)	(39,802)
- Currency translation	-	-	-	-	-	(1,273,522)	-	-	-	-	-	(1,273,522)	(1,698,391)
- Share of other comprehensive income of an associate	-	-	-	-	-	-	-	12,377	-	-	-	12,377	12,377
- Recycling of currency translation differences upon disposal of a subsidiary	-	-	-	-	-	12	-	-	-	-	-	12	12
Total comprehensive (loss)/income for the period	-	-	-	-	-	(1,273,510)	-	12,377	(39,802)	-	970,357	(330,578)	(215,388)
Balance at 30 September 2022 (unaudited)	16,323	261,172	281,716	3,304	32,373	(196,237)	96,808	(29,426)	(6,977)	1,123,518	10,798,088	12,300,662	19,876,706

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 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. 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 2023.

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 2023.

There have been no changes in the risk management policies since year ended 31 March 2023.

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 2023:

	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	85,977	–	341,727	427,704
Financial assets at fair value through profit or loss	–	–	326,137	326,137
Net fair values (unaudited)	85,977	–	667,864	753,841

The following table presents the Group's financial assets that are measured at fair value at 31 March 2023:

	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	88,156	–	373,289	461,445
Financial assets at fair value through profit or loss	–	–	653,320	653,320
Net fair values (audited)	88,156	–	1,026,609	1,114,765

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 issued by 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 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Financial assets at fair value through other comprehensive income:		
Opening balance	373,289	392,244
Changes in fair value recognised in other comprehensive income	(10,989)	(3,488)
Derecognised upon acquisition of a subsidiary	(1,000)	–
Additions	883	25,594
Disposed	–	(18,256)
Exchange realignment	(20,456)	(22,805)
Ending balance	341,727	373,289
Financial assets at fair value through profit or loss:		
Opening balance	653,320	1,149,409
Net disposal and changes in fair value of financial assets at fair value through profit or loss	(327,183)	(496,089)
Ending balance	326,137	653,320

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	
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Revenue:		
Point in time		
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
	2,175,546	2,700,950
Overtime		
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 operations 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
	4,670,411	4,084,256
Total	6,845,957	6,785,206
Other income, net:		
Interest income	88,250	82,796
Government grants and subsidies (note)	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
Total	192,331	247,787

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

6. 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

	City water supply (unaudited) HK\$'000	Pipeline direct drinking water supply (unaudited) HK\$'000	Environmental protection (unaudited) HK\$'000	Main contractor construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Inter-segment elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue								
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)	-
Segment revenue	<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>
Segment profit	<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)
Profit for the period								<u>1,377,784</u>
Total segment assets	<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

	City water supply (unaudited) HK\$'000	Pipeline direct drinking water supply (unaudited) HK\$'000	Environmental protection (unaudited) HK\$'000	Main contractor construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Inter-segment elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue								
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)	-
Segment revenue	<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>
Segment profit/(loss)	<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)
Profit for the period								<u>1,510,416</u>
Total segment assets	<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 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 2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Depreciation of property, plant and equipment	74,869	77,259
Depreciation of right-of-use assets	37,151	35,167
Amortisation of other intangible assets	419,886	382,538

8. Finance costs

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

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

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

Note: The provision for PRC current income tax is based on a statutory income tax rate of 25% (2022: 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% (2022: 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\$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.

11. Dividend

Dividend attributable to the interim period:

	Six months ended 30 September	
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Interim dividend		
– HK\$0.13 (2022: HK\$0.16) per ordinary share	212,202	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.

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

During the six months ended 30 September 2023, the addition in property, plant and equipment amounted to HK\$204,302,000 (31 March 2023: HK\$321,410,000); right-of-use assets amounted to HK\$70,225,000 (31 March 2023: HK\$16,981,000); and other intangible assets amounted to HK\$2,647,179,000 (31 March 2023: HK\$4,777,006,000).

13. Investment in associates

The movement of the carrying amount of investment in associates for the six months ended 30 September 2023 was as follows:

	Six months ended 30 September
	2023 (unaudited) HK\$'000
Opening balance	2,402,532
Additions	440
Share of profit	41,811
Share of other comprehensive income	1,063
Dividend paid	(14,763)
Exchange realignment	(127,599)
Ending balance	2,303,484

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 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Listed equity securities in Hong Kong	HK\$	1,490	2,104
Unlisted equity securities outside Hong Kong	RMB	341,727	373,289
Listed debentures outside Hong Kong	USD	84,487	86,052
		427,704	461,445

(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	
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Change in fair value of financial assets at fair value through other comprehensive income	(112,278)	(39,802)
Dividend income from financial assets (note 5)	3,860	7,574

15. Trade and bills receivables

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

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

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.

16. Prepayments, deposits and other receivables

		As at	
	<i>Notes</i>	30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Non-current			
Prepayments	(i)	345,829	363,672
Other receivables		315,447	357,988
		<u>661,276</u>	<u>721,660</u>
Current			
Prepayments		431,371	424,098
Other receivables	(ii)	2,239,698	2,211,311
		<u>2,671,069</u>	<u>2,635,409</u>

Notes:

- (i) The balances mainly represented the prepayments for construction services.
- (ii) The balances mainly represented receivables from customers for 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 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 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
0 to 90 days	3,414,058	3,085,013
91 to 180 days	841,830	874,970
Over 180 days	1,985,950	1,443,874
	6,241,838	5,403,857

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

As at 30 September 2023, the bills payables of HK\$359,373,000 (31 March 2023: HK\$425,241,000) were secured by the pledged bank deposits of HK\$228,658,000 (31 March 2023: HK\$344,431,000).

18. Accrued liabilities, deposits received and other payables

	As at	
	30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Accrued liabilities	470,716	472,607
Deposits received	103,262	97,484
Other payables (<i>note</i>)	2,400,611	2,561,558
	2,974,589	3,131,649

Note: Other payables mainly included various municipal service charges received on behalf of certain government authorities in the PRC of HK\$607,875,000 (31 March 2023: HK\$591,709,000), payables for other PRC tax surcharges and construction costs, and payables for the Company's final dividend of HK\$293,818,000 (31 March 2023: interim dividend of HK\$261,172,000).

19. Borrowings

		As at	
		30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Original currency			
Current			
Bank loans – unsecured	RMB	1,889,158	1,634,471
Bank loans – secured	RMB	1,910,396	1,768,887
Bank loans – unsecured	USD	1,940,973	3,755,498
Bank loans – unsecured	HK\$	610,000	375,000
Other loans – unsecured	RMB	5,495	5,814
Other loans – secured	RMB	339,811	339,369
Other loans – secured	USD	91,764	91,764
Government loans – unsecured	RMB	45,455	49,737
		6,833,052	8,020,540
Non-current			
Bank loans – unsecured	RMB	1,400,624	1,195,935
Bank loans – secured	RMB	5,485,388	5,974,722
Bank loans – unsecured	USD	4,769,844	3,987,942
Bank loans – unsecured	HK\$	389,126	388,709
Other loans – unsecured	RMB	78,564	83,132
Other loans – unsecured	USD	2,655,990	2,645,393
Other loans – secured	RMB	879,106	847,385
Other loans – secured	USD	399,422	443,832
Government loans – unsecured	RMB	38,031	40,242
		16,096,095	15,607,292
		22,929,147	23,627,832

20. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2023 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 2023 was HK\$1,372,315,000 (31 March 2023: HK\$1,236,005,000);
- (d) charges over right-of-use assets in which their aggregate carrying amount as at 30 September 2023 was HK\$354,371,000 (31 March 2023: HK\$356,458,000);
- (e) charges over investment properties in which their aggregate carrying amount as at 30 September 2023 was HK\$1,155,017,000 (31 March 2023: HK\$1,207,807,000);
- (f) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2023 was HK\$2,333,073,000 (31 March 2023: HK\$2,240,307,000);
- (g) charges over properties held for sale in which their aggregate carrying amount as at 30 September 2023 was HK\$74,251,000 (31 March 2023: HK\$78,568,000);
- (h) charges over the financial assets at fair value through other comprehensive income in which their aggregate carrying amount as at 30 September 2023 was HK\$229,670,000 (31 March 2023: HK\$243,023,000);
- (i) charges over the Group's bank deposits in amount of HK\$404,796,000 as at 30 September 2023 (31 March 2023: HK\$514,260,000); and
- (j) charges over receivables under services concession arrangements in which their aggregate carrying amount as at 30 September 2023 was HK\$141,413,000 (31 March 2023: HK\$152,024,000).

21. Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 30 September 2023 and 31 March 2023	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 31 March 2022 (audited),		
31 March 2023 (audited) and		
at 30 September 2023 (unaudited)	<u>1,632,322</u>	<u>16,323</u>

22. Business combination

On 9 August 2023, the Group entered into an agreement with an independent third party, 漯河市人民政府 (“Luohe Government”) that the Group and Luohe Government shall establish a new company, 漯河銀龍水務有限公司 (“Luohe Silver Dragon Water”), to run a water supply business. The Group shall contribute 81.8% registered capital of Luohe Silver Dragon Water by way of cash (RMB67,990,000, approximately HK\$74,714,000) and Luohe Government shall contribute the remaining 18.2% interest of Luohe Silver Dragon Water by way of assets and the water supply businesses in Luohe Silver Dragon Water. The transaction is an asset acquisition which met the optional concentration test as substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset. The transaction was completed on 25 August 2023.

The transaction was made as part of the Group’s strategy to facilitate the water supply business in the PRC.

The assets arising from the transaction are as follows:

	Fair value HK\$’000
Property, plant and equipment	899
Other intangible assets	90,013
Inventories	341
Non-controlling interests	(16,539)
Net identifiable assets attributed to the Group acquired	<u>74,714</u>

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	
	2023 (unaudited) HK\$’000	2022 (unaudited) HK\$’000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	13,358	39,616
– Retirement scheme contribution	310	312
	<u>13,668</u>	<u>39,928</u>

(b) Sales to an associate:

	Six months ended 30 September	
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Sales to an associate	27,031	172,712

The Group provided construction services of approximately HK\$27,031,000 (2022: HK\$172,712,000) 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.

(c) Purchases from a connected subsidiary:

	Six months ended 30 September	
	2023 (unaudited) HK\$'000	2022 (unaudited) HK\$'000
Purchases from a connected subsidiary	23,156	19,344

The Group purchased the pipeline direct drinking system related equipment and services of approximately HK\$23,156,000 (2022: HK\$19,344,000) from 江西銀麗直飲水設備有限公司 (Jiangxi Yinli Direct Drinking Equipment Co. Ltd.) ("Jiangxi Yinli"). The purchases were made in accordance with the terms of respective agreements. Jiangxi Yinli is a non-wholly owned subsidiary of the Company and ORIX China Investment Corporation ("ORIX CHINA") holds 20% of the equity interest in Jiangxi Yinli. ORIX CHINA is a subsidiary of ORIX Corporation which is a substantial shareholder of the Company. Jiangxi Yinli therefore is a connected subsidiary of the Company. The transactions also constituted continuing connected transactions as defined in Chapter 14A of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Further details of which were disclosed in the Company's announcement dated 28 February 2020.

- (d) On 2 May 2023, the Group entered into the agreement pursuant to which the Group shall acquire from Mr. Li Zhong, 80.32% equity interests in Total Happy Investment Limited ("Total Happy") at the consideration of approximately HK\$19,372,000 which was determined after arm's length negotiation between both parties. Total Happy is a limited company incorporated in Hong Kong and is principally engaged in investment holding. Mr. Li Zhong, being the vendor, is an executive director of the Company and therefore is a connected person of the Company. The acquisition also constituted a connected transaction as defined in Chapter 14A of the Listing Rules. Further details of which were disclosed in the Company's announcement dated 2 May 2023.

24. Commitments*(i) Capital commitments*

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

	As at	
	30 September 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Contracted, but not provided for		
– Other intangible assets	415,161	353,918
– Property, plant and equipment	6,572	7,209
	421,733	361,127

(ii) Operating lease arrangement

The Group leases its investment properties under operating lease arrangements for terms ranging from one to twenty 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 2023 (unaudited) HK\$'000	31 March 2023 (audited) HK\$'000
Within one year	20,722	22,844
In the second to fifth years, inclusive	15,497	24,646
After five years	4,925	5,116
	41,144	52,606

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\$0.13 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, amounted to HK\$25.6 million (2022: HK\$66.9 million).

PROPOSED SPIN-OFF AND SEPARATE LISTING OF SILVER DRAGON WATER SUPPLY GROUP LIMITED ON THE MAIN BOARD OF THE STOCK EXCHANGE

In relation to the proposed spin-off and separate listing of the Group's supply of city water and pipeline direct drinking water businesses, the Group submitted a listing application form (Form A1) to the Stock Exchange in June 2023 for listing and permission to deal in the shares of Silver Dragon Water Supply Group Limited ("Silver Dragon") (being a wholly-owned subsidiary of the Company as at the date of Form A1) on the Main Board of the Stock Exchange. The spin-off listing will help unlock the potential value of Silver Dragon and it is anticipated that this value will translate into a substantial enhancement to the existing value of the Company. Further details of which were disclosed in the Company's announcement dated 28 June 2023. The Group will carry out the separate listing in a timely and steady manner in accordance with the changes in market conditions in order to maximise benefits for the shareholders of the Company and Silver Dragon.

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2023, 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	471,036,301	–	28.86%
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	37,813,457	–	2.32%
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 Environmental Company Limited ("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 471,036,301 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 252,992,000 shares held by Mr. Duan Chuan Liang personally.
- (ii) Mr. Duan Chuan Liang and AFRL are also interested in USD8,265,000 senior notes of the Company due 2026.
- (iii) These 37,813,457 shares consist of 8,606,000 shares held by Mr. Li Zhong and 29,207,457 shares held by his spouse, Ms. Lu Hai personally.

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.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") for a term of 10 years on 9 September 2022. During the six months ended 30 September 2023, no share option was granted, exercised, cancelled or lapsed under the Share Option Scheme. As at 1 April 2023 and 30 September 2023, no share option was outstanding under the Share Option Scheme. As at the date of this interim report, 163,232,234 ordinary shares of the Company are available for issue under the Share Option Scheme, representing 10% of the issued shares of the Company.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2023, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be 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	471,036,301	–	–	28.86%	–	–
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 2023, so far as is known to any director or chief executive of the Company, no person (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be 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 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 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 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.

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 report, 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.