



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

Stock code : 855



**INTERIM  
REPORT  
2011/12**

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive

Mr. Duan Chuan Liang (*Chairman*)

Mr. Li Ji Sheng

#### Non-executive

Mr. Zhao Hai Hu

Mr. Chen Guo Ru

Mr. Zhou Wen Zhi

Mr. Wu Jiesi

#### Independent Non-executive

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Chau Kam Wing

Mr. Ong King Keung

### AUDIT COMMITTEE

Mr. Chau Kam Wing

(*Chairman of committee*)

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Ong King Keung

### REMUNERATION COMMITTEE

Mr. Chau Kam Wing

(*Chairman of committee*)

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Ong King Keung

### 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

26th Floor, Tesbury Centre,

28 Queen's Road East

Wanchai, Hong Kong

### LEGAL ADVISERS

*As to Bermuda law*

Conyers Dill & Pearman

### AUDITOR

BDO Limited

### PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

Agricultural Development Bank of China

### STOCK CODE

855

### WEBSITE

[www.chinawatergroup.com](http://www.chinawatergroup.com)

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 2011, together with the comparative figures for the corresponding period in 2010, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 September</b>	
	<i>Notes</i>	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
<b>Revenue</b>	3	<b>867,425</b>	627,403
Cost of sales		<b>(477,266)</b>	(337,788)
<b>Gross profit</b>		<b>390,159</b>	289,615
Other income	4	<b>26,690</b>	47,740
Selling and distribution costs		<b>(32,569)</b>	(25,063)
Administrative expenses		<b>(136,770)</b>	(133,361)
Fair value gain on investment properties		<b>53,667</b>	–
Gain on disposal of assets classified as held for sale	13	<b>31,373</b>	201,189
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)		<b>22,515</b>	68,284
Loss on redemption of convertible bonds	14	<b>–</b>	(16,460)
<b>Profit from operation</b>	5	<b>355,065</b>	431,944
Finance costs	6	<b>(60,034)</b>	(63,660)
Share of results of associates		<b>14,264</b>	3,558
<b>Profit before income tax</b>		<b>309,295</b>	371,842
Income tax expense	7	<b>(71,881)</b>	(35,925)
<b>Profit for the period</b>		<b>237,414</b>	335,917

**CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)**

		<b>Six months ended 30 September</b>	
		<b>2011</b>	2010
		<b>(unaudited)</b>	(unaudited)
<i>Notes</i>		<b>HK\$'000</b>	HK\$'000
<b>Attributable to:</b>			
Owners of the Company		<b>150,906</b>	271,240
Non-controlling interests		<b>86,508</b>	64,677
Profit for the period		<b>237,414</b>	335,917
<b>Earnings per share for profit attributable to owners of the Company during the period</b>			
		<b>HK cents</b>	HK cents
Basic		<b>9.97</b>	20.30
Diluted		<b>N/A</b>	18.04

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## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Profit for the period	<b>237,414</b>	335,917
Other comprehensive income:		
– Change in fair value of available-for-sale financial assets	<b>(9,155)</b>	(137,512)
– Currency translation	<b>53,471</b>	–
– Share of other comprehensive income of associates	<b>731</b>	–
Other comprehensive income for the period, net of tax	<b>45,047</b>	(137,512)
Total comprehensive income for the period	<b>282,461</b>	198,405
Total comprehensive income attributable to:		
Owners of the Company	<b>182,619</b>	133,728
Non-controlling interests	<b>99,842</b>	64,677
	<b>282,461</b>	198,405

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		As at	
		30 September 2011 (unaudited) HK\$'000	31 March 2011 (audited) HK\$'000
Notes			
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
		<b>3,743,324</b>	3,403,298
		<b>486,843</b>	442,678
		<b>871,455</b>	840,227
		<b>556,939</b>	536,117
	10(a)	<b>113,809</b>	123,190
		<b>179,692</b>	172,667
		<b>175,374</b>	178,665
		<b>112,000</b>	–
		<b>189,602</b>	287,875
		<b>6,429,038</b>	5,984,717
<b>Current assets</b>			
		<b>67,324</b>	30,300
		<b>71,330</b>	63,913
		<b>184,956</b>	95,592
	11	<b>413,051</b>	359,147
		<b>105,429</b>	103,910
		<b>1,726</b>	4,062
	10(b)	<b>1,726</b>	4,062
		<b>253,667</b>	198,102
		<b>46,599</b>	–
		<b>576,952</b>	515,637
	10(a)	<b>82,514</b>	47,390
		<b>39,003</b>	25,873
		<b>916,637</b>	848,635
		<b>2,759,188</b>	2,292,561
	13	<b>–</b>	84,158
		<b>2,759,188</b>	2,376,719

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

		As at	
	Notes	30 September 2011 (unaudited) HK\$'000	31 March 2011 (audited) HK\$'000
<b>Current liabilities</b>			
Trade payables	12	416,616	346,707
Accrued liabilities, deposits received and other payables		887,361	745,704
Borrowings		769,825	623,397
Due to non-controlling equity holders of subsidiaries		34,195	68,897
Provision for tax		148,894	124,227
Derivative financial liabilities	14	38,591	25,982
		<b>2,295,482</b>	1,934,914
<b>Net current assets</b>		<b>463,706</b>	441,805
<b>Total assets less current liabilities</b>		<b>6,892,744</b>	6,426,522
<b>Non-current liabilities</b>			
Borrowings		1,190,874	1,211,134
Due to non-controlling equity holders of subsidiaries		37,821	37,371
Convertible bonds	14	586,324	569,141
Deferred government grants		57,715	54,603
Deferred tax liabilities		231,326	220,944
		<b>2,104,060</b>	2,093,193
<b>Net assets</b>		<b>4,788,684</b>	4,333,329
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	15	15,347	13,859
Proposed dividend		30,694	41,576
Reserves		3,222,619	2,809,197
		<b>3,268,660</b>	2,864,632
<b>Non-controlling interests</b>		<b>1,520,024</b>	1,468,697
<b>Total equity</b>		<b>4,788,684</b>	4,333,329

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Net cash inflow from operating activities	<b>196,954</b>	42,105
Net cash (outflow)/inflow from investing activities	<b>(336,172)</b>	104,700
Net cash inflow from financing activities	<b>246,409</b>	133,609
Increase in cash and cash equivalents	<b>107,191</b>	280,414
Cash and cash equivalents at beginning of period	<b>787,445</b>	526,156
Effect of foreign exchange rates, net	<b>22,001</b>	(166)
Cash and cash equivalents at end of period	<b>916,637</b>	806,404
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<b>916,637</b>	806,404



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Equity attributable to owners of the Company

	Share capital (unaudited)	Proposed dividend (unaudited)	Share premium account (unaudited)	Treasury shares (unaudited)	Capital redemption reserve (unaudited)	Contributed surplus (unaudited)	Exchange fluctuation reserve (unaudited)	Share options reserves (unaudited)	Other reserves (unaudited)	Available-for-sale financial assets revaluation reserve (unaudited)	Statutory reserves (unaudited)	Retained earnings (unaudited)	Total (unaudited)	Non-controlling interests (unaudited)	Total equity (unaudited)
Balance at 1 April 2011	13,859	41,576	80,087	-	341	1,245,639	270,317	10,437	(28,921)	6,512	93,870	1,130,915	2,864,632	1,468,697	4,333,329
Subscription of new shares	2,356	-	798,678	-	-	-	-	-	-	-	-	-	801,034	-	801,034
Share issuance expenses	-	-	(22,226)	-	-	-	-	-	-	-	-	-	(22,226)	-	(22,226)
Share repurchase	(868)	-	(230,103)	(47,379)	-	-	-	-	-	-	-	-	(278,350)	-	(278,350)
Share repurchase expenses	-	-	(864)	(172)	-	-	-	-	-	-	-	-	(1,036)	-	(1,036)
Transfer to capital redemption reserve	-	-	-	-	868	-	-	-	-	-	-	(868)	-	-	-
Arising from acquisition of subsidiaries and business	-	-	-	-	-	-	-	-	-	-	-	-	-	66,021	66,021
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	(232,032)	-	-	-	(232,032)	(79,411)	(311,443)
Arising from disposal of subsidiaries	-	-	-	-	-	-	-	-	60	-	-	-	60	-	60
Final dividend paid	-	(41,576)	-	-	-	(4,465)	-	-	-	-	-	-	(46,041)	-	(46,041)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(35,125)	(35,125)
Transactions with owners	1,488	(41,576)	545,485	(47,551)	868	(4,465)	-	-	(231,972)	-	-	(868)	221,409	(48,515)	172,894
Proposed interim dividend	-	30,694	-	-	-	(30,694)	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	150,906	150,906	86,508	237,414
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	(9,155)	-	-	-	(9,155)	-	(9,155)
- Currency translation	-	-	-	-	-	-	40,137	-	-	-	-	-	40,137	13,334	53,471
- Share of other comprehensive income of associates	-	-	-	-	-	-	1,718	(987)	-	-	-	-	731	-	731
Total comprehensive income for the period	-	-	-	-	-	-	41,855	(987)	-	(9,155)	-	150,906	182,619	99,842	282,461
<b>Balance at 30 September 2011</b>	<b>15,347</b>	<b>30,694</b>	<b>625,572</b>	<b>(47,551)</b>	<b>1,209</b>	<b>1,210,480</b>	<b>312,172</b>	<b>9,450</b>	<b>(260,893)</b>	<b>(2,643)</b>	<b>93,870</b>	<b>1,280,953</b>	<b>3,268,660</b>	<b>1,520,024</b>	<b>4,788,684</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Equity attributable to owners of the Company													
	Share capital (unaudited)	Proposed dividend (unaudited)	Share premium account (unaudited)	Capital redemption reserve (unaudited)	Contributed surplus (unaudited)	Exchange fluctuation reserve (unaudited)	Share options reserves (unaudited)	Other reserves (unaudited)	Available-for-sale financial assets	Statutory reserves (unaudited)	Retained earnings (unaudited)	Total (unaudited)	Non-controlling interests (unaudited)	Total equity (unaudited)
									revaluation reserve (unaudited)					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2010	13,277	39,980	1,405	341	1,315,149	149,201	23,009	(17,463)	221,433	50,789	752,533	2,549,654	1,277,124	3,826,778
Share options exercised	265	-	34,149	-	-	-	(7,087)	-	-	-	-	27,327	-	27,327
Arising from capital contribution in subsidiaries	-	-	-	-	-	(166)	-	-	-	-	-	(166)	-	(166)
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	(1,866)	-	-	-	(1,866)	(12,509)	(14,375)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	43,796	43,796
Final dividend paid	-	(39,980)	-	-	(645)	-	-	-	-	-	-	(40,625)	-	(40,625)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(180)	(180)
Transactions with owners	265	(39,980)	34,149	-	(645)	(166)	(7,087)	(1,866)	-	-	-	(15,330)	31,107	15,777
Proposed interim dividend	-	27,083	-	-	(27,083)	-	-	-	-	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	870	(870)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	271,240	271,240	64,677	335,917
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	(137,512)	-	-	(137,512)	-	(137,512)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(137,512)	-	271,240	133,728	64,677	198,405
<b>Balance at 30 September 2010</b>	<b>15,542</b>	<b>27,083</b>	<b>35,554</b>	<b>341</b>	<b>1,287,421</b>	<b>149,035</b>	<b>15,922</b>	<b>(19,329)</b>	<b>83,921</b>	<b>51,659</b>	<b>1,022,905</b>	<b>2,668,052</b>	<b>1,372,908</b>	<b>4,040,960</b>

Notes:

## 1. Basis of preparation

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2. Principal accounting policies

The basis of preparation and 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 2011 except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that have become effective for accounting period beginning on 1 April 2011.

In the current interim period, the Group has applied for the first time the following new, revised and amendment to standards and interpretations ("new/revised/amended HKFRSs") issued by HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) – Interpretation 14 (Amendments)	Prepayment of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instrument

The application of new/revised/amended HKFRSs had no material effect on the interim condensed consolidated financial statements of the Group.

The Group has not early applied the following new or revised standards and amendments that have been issued but are not yet effective.

HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>4</sup>
HKFRS 1 (Amendments)	First-time Adoption of HKFRSs – Severe Hyperinflation, and Removal of Fixed Dates for First Time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 (Amendments)	Presentation of Item of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (2011)	Employee Benefits <sup>4</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.

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

### 3. Revenue and segment information

The Group has identified the following reportable segments:

- (i) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment operation and construction" segments, involves the provision of water supply and sewage treatment operation and construction services respectively (including the transfer-operate-transfer ("TOT") and build-operate-transfer ("BOT") arrangements);
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation; and
- (iii) "Other infrastructure construction" segment involves construction of road and other municipal works.

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". "All other segments" includes manufacture and sale of concrete products and other business activities.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs and mainly exclude gain on disposal of assets classified as held for sale, change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants), loss on redemption of convertible bonds, finance costs, share of results of associates, corporate income, corporate expense and income tax expense.

Segment assets consist primarily of intangible assets, goodwill, property, plant and equipment, prepaid land lease payments, inventories and trade receivables and mainly exclude corporate assets, available-for-sale financial assets, financial assets at fair value through profit or loss, derivative financial assets and interests in associates.

For the financial period ended 30 September 2011

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	Other infrastructure construction (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
From external customers	702,090	21,878	4,562	-	138,895	867,425
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>702,090</u>	<u>21,878</u>	<u>4,562</u>	<u>-</u>	<u>138,895</u>	<u>867,425</u>
Segment profit/(loss)	<u>256,412</u>	<u>10,523</u>	<u>47,256</u>	<u>(214)</u>	<u>17,426</u>	331,403
Unallocated corporate income						21,593
Unallocated corporate expense						(51,819)
Gain on disposal of assets classified as held for sale						31,373
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)						22,515
Finance costs						(60,034)
Share of results of associates						14,264
Profit before income tax						309,295
Income tax expense						(71,881)
Profit for the period						<u>237,414</u>
Total segment assets	<u>4,533,556</u>	<u>243,685</u>	<u>1,386,908</u>	<u>176,260</u>	<u>358,099</u>	<u>6,698,508</u>

For the financial period ended 30 September 2010

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	Other infrastructure construction (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
From external customers	521,100	21,773	-	-	84,530	627,403
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>521,100</u>	<u>21,773</u>	<u>-</u>	<u>-</u>	<u>84,530</u>	<u>627,403</u>
Segment profit/(loss)	<u>184,978</u>	<u>9,442</u>	<u>486</u>	<u>(1,006)</u>	<u>27,224</u>	<u>221,124</u>
Unallocated corporate income						17,099
Unallocated corporate expense						(59,292)
Gain on disposal of assets classified as held for sale						201,189
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)						68,284
Loss on redemption of convertible bonds						(16,460)
Finance costs						(63,660)
Share of results of associates						3,558
Profit before income tax						371,842
Income tax expense						(35,925)
Profit for the period						<u>335,917</u>
Total segment assets	<u>4,265,978</u>	<u>223,655</u>	<u>1,135,413</u>	<u>454,911</u>	<u>240,698</u>	<u>6,320,655</u>

The Group's revenues from external customers by geographical areas are not presented as the geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

**4. Other income**

	<b>Consolidated Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Interest income	<b>13,479</b>	1,607
Dividend income from financial assets	<b>2,249</b>	9,347
Government grants and subsidies	<b>3,944</b>	27,610
Miscellaneous income	<b>7,018</b>	9,176
Total	<b>26,690</b>	47,740

**5. Profit from operation**

Profit from operation is arrived at after charging:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Depreciation	<b>90,757</b>	68,171
Amortisation of prepaid land lease payments	<b>7,618</b>	3,356
Amortisation of other intangible assets	<b>4,127</b>	3,813

## 6. Finance costs

	<b>Consolidated Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Interest on bank loans	<b>44,011</b>	33,997
Interest on other borrowings	<b>8,270</b>	8,746
Interest on convertible bonds	<b>24,683</b>	26,226
Convertible bonds issuance expenses charged to income statement	–	1,289
Total borrowing costs	<b>76,964</b>	70,258
Less: interest capitalised included in property, plant and equipment	<b>(16,930)</b>	(6,598)
	<b>60,034</b>	63,660

## 7. Income tax expense

Income tax expense for other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions. Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2010: Nil).

	<b>Consolidated Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Current		
– PRC	<b>64,161</b>	35,925
Deferred		
– tax charge for the period	<b>7,720</b>	–
Total tax charge for the period	<b>71,881</b>	35,925



**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\$150,906,000 (2010: HK\$271,240,000) and on the weighted average of 1,513,804,002 (2010: 1,336,273,868) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 September 2011 in respect of a dilution as the impact of the Company's warrants, convertible bonds and share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the period ended 30 September 2010, the Company's warrants were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$271,240,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was HK\$269,608,000 and on the adjusted weighted average of 1,494,735,072 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,336,273,868 used in basic earnings per share calculation and adjusted for the effect of share options and deemed exercise or conversion of convertible bonds existing during the period of 158,461,204.

## 9. Dividends

(a) *Dividends attributable to the interim period*

	<b>Consolidated Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Interim dividend		
– HK\$0.02 (2010: HK\$0.02) per ordinary share	<b>30,694</b>	27,083

The interim dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the financial period ended 30 September 2011.

(b) *Dividends attributable to the previous financial year, approved and paid during the interim period*

	<b>2011 HK\$'000</b>	2010 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.03 (2010: HK\$0.03) per ordinary share	<b>41,576</b>	39,980
Adjustment to the final dividend*	<b>4,465</b>	645
	<b>46,041</b>	40,625

\* The adjustment was due to subscription of new shares and cancellation of the Company's repurchased shares prior to the date of the final dividend and, therefore, the related shares rank for this dividend payment.

**10. Other financial assets***(a) Available-for-sale financial assets*

	<b>As at</b>	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value <i>(note (i))</i>	<b>54,320</b>	63,475
Unlisted equity securities outside Hong Kong, at cost <i>(note (ii))</i>	<b>59,489</b>	59,715
	<b>113,809</b>	123,190

*Notes:*

- (i) The Group held certain convertible bonds issued by China Water Property Group Limited ("Water Property") (the "Water Property Convertible Bonds"), a company listed on the Stock Exchange (stock code: 2349) which are due on 13 November 2017 and are convertible into fully paid ordinary shares of Water Property with a par value of HK\$0.01 each (the "Water Property Shares") at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. On 27 October 2009 and 24 October 2011, the conversion price was adjusted to HK\$0.045 and HK\$0.3781 (after share consolidation) respectively. As at 30 September 2011, the Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the Water Property Convertible Bonds does not trigger a mandatory offer obligation under The Hong Kong Code on Takeovers and Mergers. The Water Property Convertible Bonds can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date.

The Group held the Water Property Convertible Bonds with a principal amount of HK\$141,550,000 as at 31 March 2010. During the year ended 31 March 2011, a principal amount of HK\$60,000,000 Water Property Convertible Bonds were converted into 1,333,333,333 ordinary shares of Water Property with a par value of HK\$0.01 each at the conversion price of HK\$0.045. After the above conversion, the Group held the Water Property Convertible Bonds with a principal amount of HK\$81,550,000 as at 31 March 2011 and 30 September 2011.

The Water Property Convertible Bonds are separated into two components: the debt element and the conversion options element. The Group has classified the debt element of the Water Property Convertible Bonds as available-for-sale financial assets and the conversion options element of the Water Property Convertible Bonds as derivative financial instruments included in derivative financial assets.

The fair value of the debt element was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to instruments of similar terms. The effective interest rates of the debt element at 30 September 2011 is approximately 10.817%. The fair value of the debt element was determined by RHL Appraisal Limited, an independent firm of professional valuers.

The fair value of the conversion options element was determined by the directors of the Company with reference to the valuation performed by RHL Appraisal Limited, an independent firm of professional valuers on Binomial model basis.

The major inputs used in the model are as follows:

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2011</b>	2011
Stock price	<b>HK\$0.49</b>	HK\$0.107
Volatility	<b>83.012%</b>	79.785%
Risk free rate	<b>0.903%</b>	2.271%

The carrying amounts of the debt element and conversion options element of the Water Property Convertible Bonds are as follows:

	<b>Debt element – Unlisted debt securities</b>	<b>Conversion options element – Conversion options embedded in convertible bonds</b>
	HK\$'000	HK\$'000
Net carrying amount at 1 April 2010	106,734	142,897
Conversion into Water Property Shares	(40,726)	(56,921)
Change in fair value		
– charged to profit or loss	–	(38,586)
– charged to equity	(2,533)	–
Net carrying amount at 31 March 2011 and at 1 April 2011	63,475	47,390
Change in fair value		
– credited to profit or loss	–	35,124
– charged to equity	(9,155)	–
<b>Net carrying amount at 30 September 2011</b>	<b>54,320</b>	<b>82,514</b>

- (ii) The unlisted available-for-sale equity securities are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured.

## (b) Financial assets at fair value through profit or loss

	As at	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Listed equity securities, at market value:		
– Hong Kong	–	380
– Elsewhere	<b>1,726</b>	1,801
	<b>1,726</b>	2,181
Unlisted investment at fair value	–	1,881
	<b>1,726</b>	4,062

Fair values of the listed equity securities have been determined by reference to their quoted bid prices at the reporting date in an active market. Fair value of the unlisted investment was based on the value quoted by the issuers at the end of the reporting date.

**11. Trade receivables**

The ageing analysis of the Group's trade receivables based on invoice dates is as follows:

	As at	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Current to 90 days	<b>146,939</b>	111,934
91 to 180 days	<b>36,648</b>	37,648
Over 180 days	<b>229,464</b>	209,565
	<b>413,051</b>	359,147

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for construction related projects for which settlement is made in accordance with the terms specified in the contracts governing the relevant transaction.

As at the reporting date, the Group had no significant balances of trade receivables that were past due but not impaired. The directors of the Company are of the opinion that no allowance for impairment of trade receivables is necessary as there was no recent history of significant default in respect of these trade debtors. Trade receivables that were neither past due nor impaired related to a large number of independent customers that had a good track record of credit with the Group. In general, the Group does not hold any collateral or other credit enhancements over these balances.

## 12. Trade payables

The ageing analysis of the Group's trade payables based on invoice dates is as follows:

	As at	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Current to 90 days	<b>137,736</b>	84,728
91 to 180 days	<b>27,000</b>	34,905
Over 180 days	<b>251,880</b>	227,074
	<b>416,616</b>	346,707

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

As at 30 September 2011, the bills payables of HK\$30,360,000 (31 March 2011: HK\$5,102,000) were secured by the pledged bank deposits of HK\$28,304,000 (31 March 2011: HK\$1,534,000).

## 13. Assets classified as held for sale

- (a) On 20 May 2010, the Company entered into a conditional agreement with China Water Group (HK) Limited, a direct wholly owned subsidiary of the Company, and AES China Hydropower Investment Co. Pte. Ltd ("AES") (i) to sell the entire issued share capital in China Hydropower Development Limited ("China Hydropower"), an indirect wholly owned subsidiary of the Company which held 35% equity interest in 江河農村電氣化發展有限公司 ("江河農電"), and the shareholder's loan due from China Hydropower to the Company in the sum of approximately HK\$197.94 million to AES at the consideration of RMB238 million in cash, and (ii) to procure 河南銀龍供水有限公司, an indirect wholly owned subsidiary of the Company, to sell 15% equity interest in 江河農電 at the consideration of RMB102 million. Further details of which are disclosed in the Company's announcement dated 23 May 2010.

During the period ended 30 September 2010, the disposal of 35% equity interest in 江河農電 was completed and the Group recognised a gain on disposal of assets classified as held for sale of HK\$73,997,000. As at 31 March 2011, the assets classified as held for sale amounted to HK\$84,158,000 represented the carrying amount of 15% equity interest in 江河農電.

During the period ended 30 September 2011, the disposal of the remaining 15% equity interest in 江河農電 was completed and the Group recognised a gain on disposal of assets classified as held for sale of HK\$31,373,000.

- (b) On 30 June 2010, the Company entered into an agreement with Jiangyin Chang Jiang Steel Pipes Company Limited to sell 13.228% equity interest in 中國水務投資有限公司 ("水務投資"), at the consideration of RMB236.4 million in cash. During the period ended 30 September 2010, the disposal of 13.228% equity interest in 水務投資 was completed. The disposal of the remaining 3.857% equity interest in 水務投資 at a consideration of HK\$41,255,000 was also completed in June 2010. The Group recognised a gain on disposal of assets classified as held for sale of HK\$127,192,000.

#### 14. Convertible bonds

The carrying values of the liability component and derivative component of the convertible bonds are as follows:

	<b>2012</b> <b>Convertible</b> <b>Bonds</b> <i>(note a)</i> HK\$'000	<b>2015</b> <b>Convertible</b> <b>Bonds</b> <i>(note b)</i> HK\$'000
<b>Liability component</b>		
Net carrying amounts at 1 April 2010	257,252	–
Arising from repurchases/redemption	(262,312)	–
Issue of 2015 Convertible Bonds	–	531,632
Interest expenses	5,060	45,009
Interest on convertible bonds paid	–	(7,500)
Net carrying amounts at 31 March 2011 and at 1 April 2011	–	569,141
Interest expenses	–	24,683
Interest on convertible bonds paid	–	(7,500)
<b>Net carrying amounts at 30 September 2011</b>	<b>–</b>	<b>586,324</b>
<b>Derivative component</b>		
<b>– classified as current liabilities</b>		
Net carrying amounts at 1 April 2010	252	–
Arising from repurchases/redemption	(252)	–
Issue of 2015 Convertible Bonds	–	55,338
Change in fair value of derivative financial instruments	–	(29,357)
Net carrying amounts at 31 March 2011 and at 1 April 2011	–	25,981
Change in fair value of derivative financial instruments	–	12,610
<b>Net carrying amounts at 30 September 2011</b>	<b>–</b>	<b>38,591</b>

*Notes:*

- (a) Pursuant to an announcement (the "2007 CB Announcement") dated 18 July 2007 and information memorandum (the "2007 Information Memorandum") of the Company dated 3 August 2007, the Company issued HK\$650,000,000 zero coupon convertible bonds (the "2012 Convertible Bonds") at 100% of principal amount to DBS Bank Limited ("DBS") on 3 August 2007 (the "2007 CB Issue").

The 2012 Convertible Bonds are convertible at any time on or after 2 September 2007 and up to the close of business on 20 July 2012 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholder at an initial conversion price of HK\$7 per share (the "Conversion Price"). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 3 February 2009, the average of the closing prices of the share of the Company on each trading day in the period of 15 consecutive trading days ending on (and including) the day immediately prior to 3 February 2009 (the "Reference Price") is less than the Conversion Price on such date, the Conversion Price shall be reset to the Reference Price (the "2012 Conversion Price Reset") provided that the Conversion Price shall not be reduced on 3 February 2009 to below HK\$5.45. On 3 February 2009, the Conversion Price was reset to the Reference Price at HK\$5.45. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2012 Convertible Bonds at 132.77 per cent of its principal amount on 3 August 2012.

Both the Company and the bondholders have redemption options on the 2012 Convertible Bonds pursuant to the 2007 Information Memorandum.

On or after 3 February 2009 and on or prior to 2 August 2010, the Company may redeem all or some of the 2012 Convertible Bonds at their accreted principal amount, in whole but not in part if on each of not less than 20 consecutive trading days ending not earlier than 14 days prior to the date on which the notice of redemption is given to bondholders, the aggregate value on each trading day shall have been at least 150 per cent of the accreted principal amount in respect of each HK\$100,000 on such trading day.

On or after 3 August 2010 and on or prior to 24 July 2012, the Company may redeem all or some of the 2012 Convertible Bonds at their accreted principal amount, in whole but not in part if on each of not less than 20 consecutive trading days ending not earlier than 14 days prior to the date on which the notice of redemption is given to bondholders, the aggregate value on each trading day shall have been at least 130 per cent of the accreted principal amount in respect of each HK\$100,000 on such trading day.

On 3 August 2010, the bondholders of the 2012 Convertible Bonds will have the right at such holder's option, to require the Company to redeem all or some of the 2012 Convertible Bonds at 118.538 per cent of their unpaid principal amount as at 3 August 2010.

In the event that the Company's shares cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder's option, to require the Company to redeem all or some of such holder's 2012 Convertible Bonds at their accreted principal amount.

Further details of the terms and conditions of the 2007 CB Issue have been set out in the 2007 CB Announcement and the 2007 Information Memorandum.



- (b) On 10 March 2010, the Company entered into a subscription agreement with DBS pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK\$600 million (the "2015 Convertible Bonds") at 2.5% coupon rate per annum with maturity on 15 April 2015. The 2015 Convertible Bonds are convertible at any time on or after 26 May 2010 and up to the close of business on 5 April 2015 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholders, at an initial conversion price of HK\$4 per share (the "2015 Conversion Price"). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 15 April 2011, the average of the volume weighted average price (the "Average Market Price") of the shares of the Company on each trading day in the period of 20 consecutive trading days before the day immediately prior to 15 April 2011 is less than the 2015 Conversion Price on the 15 April 2011, the 2015 Conversion Price shall be reset to the Average Market Price (the "2015 Conversion Price Reset") provided that the 2015 Conversion Price shall not be reduced on 15 April 2011 to below HK\$3.15 (before adjustment). On 17 September 2010, 16 December 2010, 15 April 2011 and 6 September 2011, the 2015 Convertible Price was reset to HK\$3.96, HK\$3.93, HK\$3.10 and HK\$3.07 respectively. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2015 Convertible Bonds at 120.06 per cent of its principal amount on 15 April 2015.

On or after 15 April 2013, the Company may redeem all or some of the 2015 Convertible Bonds at their accreted principal amount, in whole but not in part if the closing price of the shares of the Company for each of the 20 consecutive trading days ending not more than 20 days prior to the date upon which notice of such redemption is given, is at least 135 per cent of the 2015 Conversion Price on such trading day.

On 15 April 2013, the bondholders of the 2015 Convertible Bonds will have the right at such holders' option, to require the Company to redeem all or some of the 2015 Convertible Bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013.

In the event that the Company's shares cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder's option, to require the Company to redeem all or some of such holder's 2015 Convertible Bonds at their accreted principal amount.

Further details of which are disclosed in the Company's announcement dated 10 March 2010. The transaction was completed on 15 April 2010.

The Group determined that the above 2012 and 2015 Conversion Price Reset will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company's shares. In accordance with the requirement of HKAS 32, the bond contracts are separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element.

During the period ended 30 September 2010, the Company repurchased the 2012 Convertible Bonds and certain bondholders also exercised their right to require the Company to redeem the 2012 Convertible Bonds. After the completion of repurchases and redemption, the outstanding principal amount of the 2012 Convertible Bonds of HK\$236,900,000 were fully repaid as at 30 September 2010. The Group recognised a loss on redemption of the 2012 Convertible Bonds of HK\$16,460,000 during the period ended 30 September 2010.

The fair value of the derivative component of the 2015 Convertible Bonds was calculated using the Binominal Model with the major inputs used in the model as follows:

	<b>As at</b>	
	<b>30 September 2011</b>	31 March 2011
Stock price	<b>HK\$2.20</b>	HK\$2.96
Volatility	<b>9.500%</b>	14.025%
Risk free rate	<b>0.460%</b>	1.529%

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the derivative component during the period ended 30 September 2011 results in a fair value loss of HK\$12,610,000 (2010: fair value gain of HK\$22,798,000), which has been included in the "Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)" in the income statement for the period ended 30 September 2011.

Interest expenses are calculated using the effective interest method by apply the effective interest rate of 8.65% to the adjusted liability component.

## 15. Share capital

	<b>Number of shares</b> '000	<b>Par value</b> HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2011 and 31 March 2011	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2010	1,327,672	13,277
Share options exercised	<u>58,200</u>	<u>582</u>
Ordinary shares of HK\$0.01 each at 31 March 2011 and 1 April 2011	1,385,872	13,859
Subscription of new shares (note (a))	235,598	2,356
Repurchased and cancelled (note (b))	<u>(86,784)</u>	<u>(868)</u>
Ordinary shares of HK\$0.01 each at 30 September 2011	<u>1,534,686</u>	<u>15,347</u>

*Notes:*

- (a) On 19 May 2011, the Company and ORIX Corporation ("ORIX") entered into a subscription agreement pursuant to which ORIX agreed to subscribe 235,598,277 new ordinary shares of the Company at the price of HK\$3.40 per share. On 30 May 2011, the subscription completed and raised total consideration of approximately HK\$801,034,000 (before expenses). The premium received was credited to the share premium account.
- (b) During the period ended 30 September 2011, the Company repurchased a total of 106,062,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$278,350,000. The highest price paid and the lowest price paid was HK\$2.88 and HK\$2.17 respectively. 86,784,000 of the repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve. The remaining 19,278,000 of the repurchased shares with a repurchased cost of approximately HK\$47,551,000 (including expenses) were held as treasury shares as at 30 September 2011.

**16. Pledge of assets**

- (i) The Group's bank loans and other loans at 30 September 2011 were secured by:
  - (a) pledge of water and sewage treatment revenue of certain subsidiaries;
  - (b) guarantees by Li Huang Xiu and Qi Xiao Qiang (being senior management of certain subsidiaries) and 常州市武進供水總公司;
  - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2011 was HK\$263,253,000 (31 March 2011: HK\$164,158,000);
  - (d) charges over interests in land use rights in which their aggregate carrying amount as at 30 September 2011 was HK\$129,476,000 (31 March 2011: HK\$64,368,000);
  - (e) charges over investment properties in which their aggregate carrying amount as at 30 September 2011 was HK\$181,325,000 (31 March 2011: HK\$282,143,000);
  - (f) charges over properties held for sale in which their aggregate carrying amount as at 30 September 2011 was HK\$21,292,000 (31 March 2011: HK\$21,039,000);
  - (g) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2011 was HK\$175,374,000 (31 March 2011: HK\$178,665,000); and
  - (h) charges over the Group's bank deposits in the amount of HK\$6,024,000 as at 30 September 2011 (31 March 2011: HK\$20,011,000).

- (ii) On 18 December 2007, the Company entered into a term facility agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH (“DEG”) and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”) for a loan facility of up to US\$36 million (the “DEG Loan Agreement”). On 13 August 2008, the Company and its subsidiary, DEG and FMO entered into amended and restated term facility agreement to amend the DEG Loan Agreement (the “Amended DEG Loan Agreement”). In connection with the Amended DEG Loan Agreement, the Company acted as guarantor and issued to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company at the subscription price of HK\$7 during the subscription period from 18 December 2008 to 18 December 2011 (both days inclusive) up to USD10.8 million (the “Warrants”).

The facility of US\$36 million was fully utilised during the year ended 31 March 2009 (the “DEG and FMO Loan”). The DEG and FMO Loan bears floating rate of 2.10% per annum above the London Inter-Bank Offer Rates. The subscription monies for the Warrants shall be satisfied by way of set off of any outstanding amount under the Amended DEG Loan Agreement. The loan facility under the Amended DEG Loan Agreement is secured by (i) shares of certain subsidiaries of the Group; (ii) the Group’s equity interests in Water Property; and (iii) a bank account of the Group.

During the year ended 31 March 2011, certain provisions of the Amended DEG Loan Agreement were breached which could cause the DEG and FMO Loan becomes payable on demand. However, on 31 March 2011, the Group has been granted the waiver in respect of the breached provisions. In the opinion of the directors of the Company after taking into account the waiver, the Group has an unconditional right to defer settlement of the DEG and FMO Loan until 1 April 2012.

## 17. 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:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$’000</b>	2010 (unaudited) HK\$’000
Total remuneration of directors and other members of key management during the year		
– Short term employee benefits	<b>20,239</b>	35,895
– Retirement scheme contribution	<b>28</b>	18
	<b>20,267</b>	35,913

- (b) In November 2010, the Group entered into an agreement with 北京義利食品公司, a non-controlling equity holder of a subsidiary of the Group, to acquire the remaining 33% equity interest in 北京中水建設實業有限公司 (the “Beijing Target”) at cash consideration of RMB262,000,000 (approximately HK\$311,443,000). After completion, the Group will hold the entire interest in the Beijing Target. The acquisition constitutes a connect transaction of the Company under Chapter 14A of the Listing Rules. As all the relevant percentages under Rule 14A.31(9) of the Listing Rules is less than 5%, the acquisition is exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The transaction was completed during the period ended 30 September 2011.

- (c) On 22 September 2009, Huizhou China Water Affairs Development Company Limited (the "Purchaser"), a non-wholly owned subsidiary of the Company, entered into an agreement with Huizhou Investment Management Company, to acquire 25.62% equity interest in Huizhou Daya Bay Yiyuan Purified Water Co., Limited (the "Huizhou Target") at cash consideration of RMB65,650,000 (equivalent to approximately HK\$74,184,500). After completion, the Group will hold 59.78% effective equity interest in the Huizhou Target through the Purchaser. The acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all the relevant percentages under Rule 14.07 of the Listing Rules is less than 2.5%, the acquisition is subject only to the reporting and announcement requirements and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transaction was completed in October 2010.
- (d) On 18 August 2010, the Company entered into an agreement with Kolon Industries, Inc., Kolon Engineering & Construction Co., Ltd. and Environmental Facilities Management Corporation, to acquire the remaining 49% issued share capital of China Kolon Water Management Company Limited (the "Kolon Target") at cash consideration of HK\$14,394,000. After completion, the Company will hold the entire interest in the Kolon Target. The acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all the relevant percentages under Rule 14.07 of the Listing Rules is less than 5%, the acquisition is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transaction was completed in September 2010.

## 18. Commitments

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

### (i) Capital commitments

	<b>As at</b>	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Contracted, but not provided for		
– Construction in progress	<b>19,099</b>	31,677
– Plant and machinery	<b>669</b>	1,942
– Water pipelines	<b>68,959</b>	78,909
	<b>88,727</b>	112,528

(ii) *Operating lease arrangement***As lessee**

The Group leases certain of its leasehold land, office premises, properties, water pipelines, plant and machinery under operating lease arrangements for terms ranging from one to ten years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the Group and the landlords. None of the leases include contingent rentals.

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

	<b>As at</b>	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Within one year	<b>13,693</b>	14,512
In the second to fifth years, inclusive	<b>33,849</b>	36,441
After five years	<b>66,388</b>	69,802
	<b>113,930</b>	120,755

**As lessor**

The Group leases its investment properties under operating lease arrangements for terms ranging from one to five years. Certain leases contain an option to renew the lease and renegotiated 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 receivables under non-cancellable operating leases falling due as follows:

	<b>As at</b>	
	<b>30 September 2011 (unaudited) HK\$'000</b>	31 March 2011 (audited) HK\$'000
Within one year	<b>603</b>	839
In the second to fifth years, inclusive	<b>453</b>	304
	<b>1,056</b>	1,143

- (iii) At the reporting date, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$83,120,000 (31 March 2011: HK\$16,158,000).

## 19. Contingent liabilities

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

## 20. Post reporting date events

Save as disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material events after 30 September 2011:

- (a) Subsequent to the reporting date and up to the date of this interim report, the Company repurchased a total of 22,518,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$46,095,000. The highest price paid and the lowest price paid was HK\$2.28 and HK\$1.80 respectively. 41,796,000 repurchased shares were cancelled on 2 November 2011.
- (b) On 8 July 2011, the Group entered into a facility agreement with Asian Development Bank for a loan facility of up to US\$100 million. The Group shall apply the amount borrowed for the investment in and construction, operation, maintenance and rehabilitation of water supply projects in the PRC. Up to the date of this report, the Group has utilised the loan facility of approximately HK\$311,756,000.
- (c) On 28 July 2011, the Company has entered into an underwriting agreement with Water Property, as the underwriter to fully underwrite the offer shares (other than 1,202,265 offer shares to be taken up by Mr. Duan Chuan Liang, a director of the Company and Water Property) under the Water Property's open offer subject to the terms and conditions of the underwriting agreement (the "Water Property's Open Offer"). Under the underwriting agreement, the Company and Water Property have agreed that the subscription price payable by the Company for the offer shares to which the Group are entitled under the Water Property's Open Offer and the underwritten shares would be by way of the set off against the loan of HK\$112 million indebted to the Group in the first place and the remaining balance of the subscription price will be settled in cash.

Assuming that no qualifying shareholders of Water Property to be taken up any offer shares, the aggregate number of offer shares to be taken up by the Group (other than 1,202,265 offer shares to be taken up by Mr. Duan Chuan Liang) shall amount to 501,289,981 offer shares and the aggregate subscription to be paid by the Group in such event shall amount to a maximum of HK\$250,645,000.

The Water Property's Open Offer was completed in October 2011 and the Group subscribed 415,809,586 offer shares at the subscription price of HK\$207,905,000. Immediately after completion of the Water Property's Open Offer, the Group's equity interest in Water Property was increased to 44.10%.

- (d) On 7 October 2011, the Company repurchased the 2015 Convertible Bonds with a principal amount of HK\$64,500,000 at the consideration of approximately HK\$58,050,000. After completion of the above repurchase, the outstanding principal amount of the 2015 Convertible Bonds is HK\$535,500,000.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.02 per ordinary share for the six months ended 30 September 2011 (2010: HK\$0.02 per ordinary share). The interim dividend will be payable on or about Friday, 6 January 2012 to the shareholders whose names appear on the register of member on Friday, 23 December 2011.

## BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$627.4 million for the six months ended 30 September 2010 to HK\$867.4 million for the six months ended 30 September 2011, representing an increase of 38.3%. The Group recorded a robust growth in its "Water" segment. For the period under review, the total revenue attributable to the "Water" segment amounted to HK\$724.0 million, representing an increase of 33.4% when compared with the total "Water" segment revenue of HK\$542.9 million in the corresponding period. This organic growth of "Water" segment is mainly attributable to the successful growth of the Group through various mergers and acquisition, increase in operating efficiency and tariff of the water supply and sewage treatment plants.

### (i) Water Supply Business Analysis

City water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Henan, Hainan, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing.

For the period under review, the revenue from city water supply operation and construction amounted to HK\$702.1 million (2010: HK\$521.1 million), representing an increase of 34.7% as compared with the last corresponding period. The total water segment profit (including city water supply, water related installation works and meter installation) amounted to HK\$256.4 million (2010: HK\$185.0 million), representing an increase of 38.6% as compared with the last corresponding period.

Two new water supply projects of the Group located in Jian and Yifeng of Jiangxi province contributed total additional revenue of HK\$28.1 million and net profit of HK\$4.9 million to the Group for the period under view.

The water supply project of the Group located in Wuzhou of Guangxi province which is accounted for as an associate of the Group contributed net profit of HK\$5.1 million to the Group (2010: HK\$3.6 million).



**(ii) Sewage Treatment Business Analysis**

Sewage treatment projects of the Group are mainly located in Hubei and Jiangxi provinces of China.

For the period under review, the revenue from sewage treatment operation and construction business amounted to HK\$21.9 million (2010: HK\$21.8 million), representing an increase of 0.5% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$10.5 million (2010: HK\$9.4 million), representing an increase of 11.7% as compared with the last corresponding period.

**(iii) Property Business Analysis**

The Group held various property development and investment projects which are mainly located in Jiangxi and Hunan provinces.

For the period under review, the revenue from the property business segment amounted to HK\$4.6 million (2010: Nil). The total property business segment profit amounted to HK\$47.3 million (2010: HK\$0.5 million), representing an increase of 9,360.0% as compared with the last corresponding period, which was mainly due to the fair value gain on investment properties amounted to HK\$53.7 million. The Group expected that its performance would be strengthened by the realisation of value from the Group's property development and investment projects in the near future.

**(iv) Other Infrastructure Construction Business Analysis**

For the period under review, the Group did not record any revenue from the other infrastructure construction business segment (2010: Nil). The total other infrastructure construction business segment loss amounted to HK\$0.2 million (2010: loss of HK\$1.0 million).

For the period under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to HK\$31.4 million, which represented the gain on disposal of remaining 15% equity interest in 江河農村電氣化發展有限公司("江河農電"). For the corresponding period under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to HK\$201.2 million, which represented the aggregate gain on disposal of 35% equity interest in 江河農電 and 17.085% equity interest in 中國水務投資有限公司. The Group considered that realisation of the above investments at a gain can provide resources to the Group in developing water supply related businesses in China.

## FUTURE PROSPECTS

Going forward, the impending risks in the European and the U.S. financial markets together with the continuing effect of monetary policy tightening in China made the global economic environment in the second half of financial year ending 31 March 2012 full of challenge. However, the Group is optimistic while cautious of the prospects in that (i) the Central Chinese government published policy on water conservancy that have drawn unprecedented attention; (ii) the Group generates a stable cash flow from its water supply business; and (iii) the Group strengthened its cash flow by placing of 235,598,277 new shares to ORIX Corporation in May 2011 which raised total cash consideration of approximately HK\$801.0 million (before expense) and securing a loan facility of up to US\$100 million from the Asian Development Bank in July 2011.

Leverage on the above advantages, the Group will continue the policy of conservative cash flow management by identifying with prevailing good investment opportunities while maintaining a sound financial position in the present uncertain economic environment.

## CAPITAL RAISING

On 19 May 2011, the Company and ORIX Corporation ("ORIX") entered into a subscription agreement pursuant to which ORIX agreed to subscribe 235,598,277 new ordinary shares of the Company at the price of HK\$3.40 per share. The net proceeds from the subscription of new shares will be used for water related investments and for general working capital of the Group. On 30 May 2011, the subscription completed and raised total cash consideration of approximately HK\$801.0 million (before expenses).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2011, the Group has total cash and bank balances of approximately HK\$955.6 million (31 March 2011: HK\$874.5 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 47.9% (31 March 2011: 48.2%) as at 30 September 2011. The current ratio is 1.20 times (31 March 2011: 1.23 times) as at 30 September 2011. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

## HUMAN RESOURCES

As at 30 September 2011, the Group has employed approximately 4,900 staff. Most of them stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2011, the interests and short positions of the directors and chief executives in the share capital 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 Companies ("Model Code") were as follows:

### (a) Shares

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 (Note)	Corporate and personal	322,874,301	–	21.04%
Mr. Chen Guo Ru	Personal	3,500,000	–	0.23%
Mr. Zhao Hai Hu	Personal	1,380,000	–	0.09%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%

Note: These 322,874,301 shares consists of 143,578,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 179,296,000 shares held by Mr. Duan Chuan Liang personally.

### (b) Underlying shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximate percentage of shareholding in the Company	
		Long position (Note)	Short position	Long	Short
				position	position
Mr. Li Ji Sheng	Personal	1,000,000	–	0.07%	–
Mr. Chen Guo Ru	Personal	500,000	–	0.03%	–
Mr. Wu Jiesi	Personal	500,000	–	0.03%	–
Mr. Zhao Hai Hu	Personal	1,000,000	–	0.07%	–
Mr. Zhou Wen Zhi	Personal	500,000	–	0.03%	–

Note: Being options to acquire ordinary shares of the Company, and further details of which are set out in the section headed "Share Option Schemes" below.

## SHARE OPTION SCHEMES

The following table disclosed movements in the Company's share options during the period ended 30 September 2011:

Name or category of participant	Number of share options				At 30 September 2011	Date of grant of share options	Exercise period of share options	Exercise price of share options (HK\$) (note a)
	At 1 April 2011	Granted during the period	Exercised during the period	Lapsed during the period				
<b>Directors</b>								
Mr. Li Ji Sheng	1,000,000	-	-	-	1,000,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
Mr. Wu Jiesi	500,000	-	-	-	500,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
Mr. Chen Guo Ru	500,000	-	-	-	500,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
Mr. Zhou Wen Zhi	500,000	-	-	-	500,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
Mr. Zhao Hai Hu	1,000,000	-	-	-	1,000,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
<b>Other employees</b>								
In aggregate	8,500,000	-	-	-	8,500,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
<b>Suppliers/Advisors</b>								
In aggregate	2,000,000	-	-	-	2,000,000	10 December 2009	10 December 2009 to 9 December 2011	2.85
	<u>14,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,000,000</u>			

Note:

- (a) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" 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 for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

### **DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" above, at no time during the period ended 30 September 2011 was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

### **SUBSTANTIAL SHAREHOLDERS**

As at 30 September 2011, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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	322,874,301	-	-	21.04%	-	-
Asset Full Resources Limited (Note (i))	Beneficial	143,578,301	-	-	9.36%	-	-
Atlantis Capital Holdings Limited (Note (ii))	Investment manager	182,000,000	-	-	11.86%	-	-
ORIX Corporation	Beneficial	235,598,277	-	-	15.35%	-	-
JP Morgan Chase & Co.	Beneficial/Custodian	160,796,009	11,500,000	125,404,341	10.48%	0.75%	8.17%
Norges Bank	Beneficial	127,684,000	-	-	8.32%	-	-
Deutsche Bank Aktiengesellschaft	Beneficial/Investment manager/Person having a security interest in shares/Custodian	80,885,835	10,202,160	368,000	5.27%	0.66%	0.02%

*Notes:*

- (i) These Shares are beneficially owned by Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Mr. Duan Chuan Liang, an executive director and chairman of the Company.
- (ii) Beneficially and wholly owned by Ms. Liu Yang.

Save as disclosed above, as at 30 September 2011, 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 which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

## CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2011, except for certain deviations as follows:

### Code Provision A.2.1

Deviation existed in respect of the distinctive roles of chairman and chief executive officer as described in the 2011 annual report. 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.

### Code Provision A.4.2

Under this code provision, 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 roles of the chairman provide 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.

## MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for the Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by its directors. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules for the six months ended 30 September 2011.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2011 and subsequent to the reporting date and up to the date of this interim report, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

<b>Month/Year</b>	<b>Number of shares repurchased</b>	<b>Highest price per share</b> HK\$	<b>Lowest price per share</b> HK\$	<b>Aggregate consideration (excluding expenses)</b> HK\$
June 2011	7,968,000	2.80	2.69	22,060,000
July 2011	29,374,000	2.88	2.71	82,645,000
August 2011	49,442,000	2.71	2.37	126,266,000
September 2011	19,278,000	2.64	2.17	47,379,000
October 2011	22,518,000	2.28	1.80	45,929,000

During the period ended 30 September 2011, the Company repurchased a total of 106,062,000 ordinary shares of HK\$0.01 each in the capital of the Company. 31,274,000 and 55,510,000 of the repurchased shares were cancelled in July 2011 and August 2011 respectively. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company. The remaining 19,278,000 of the repurchased shares were not cancelled at 30 September 2011.

Subsequent to the reporting date and up to the date of this interim report, the Company repurchased a total of 22,518,000 ordinary shares of HK\$0.01 each in the capital of the Company. 41,796,000 of repurchased shares were cancelled in October 2011. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.



## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19 December 2011 to Friday, 23 December 2011 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 2011, 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, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 16 December 2011.

## REMUNERATION COMMITTEE

The Remuneration Committee which comprises the four independent non-executive directors of the Company is responsible for reviewing and evaluating the remuneration policies of executive directors and making recommendations to the Board from time to time.

## 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 accounts for the six months ended 30 September 2011 with the directors.

On behalf of the Board  
**China Water Affairs Group Limited**  
**Duan Chuan Liang**  
*Chairman*

Hong Kong, 28 November 2011

*As at the date of this report, the Board comprises two executive Directors, being Mr. Duan Chuan Liang and Mr. Li Ji Sheng, four non-executive Directors, being Mr. Chen Guo Ru, Mr. Wu Jiesi, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi, and four independent non-executive Directors, being Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung.*