



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

INTERIM REPORT 2012/13



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

Mr. Makoto Inoue

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

NOMINATION COMMITTEE

Mr. Duan Chuan Liang

(*Chairman of committee*)

Mr. Chau Kam Wing

Ms. Huang Shao Yun

Ms. Liu Dong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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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

Asian Development Bank

STOCK CODE

855

WEBSITE

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 2012, together with the comparative figures for the corresponding period in 2011, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
	<i>Notes</i>	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Revenue	3	1,006,687	867,425
Cost of sales		(538,243)	(477,266)
Gross profit		468,444	390,159
Other income	4	30,317	26,690
Selling and distribution costs		(42,717)	(32,569)
Administrative expenses		(169,530)	(136,770)
Fair value gain on investment properties		72,517	53,667
Gain on disposal of assets and liabilities classified as held for sale	13	41,333	31,373
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)		7,939	22,515
Loss on redemption of convertible bonds	14	(142)	–
Profit from operation	5	408,161	355,065
Finance costs	6	(60,416)	(60,034)
Share of results of associates		(2,378)	14,264
Profit before income tax		345,367	309,295
Income tax expense	7	(87,817)	(71,881)
Profit for the period		257,550	237,414

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)**Six months ended
30 September**

	<i>Notes</i>	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Profit for the period attributable to:			
Owners of the Company		137,677	150,906
Non-controlling interests		119,873	86,508
		257,550	237,414
Earnings per share for profit attributable to owners of the Company during the period			
	8	HK cents	HK cents
Basic		9.48	9.97
Diluted		9.37	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Profit for the period	257,550	237,414
Other comprehensive income		
– Change in fair value of available-for-sale financial assets	3,724	(9,155)
– Currency translation	–	53,471
– Share of other comprehensive income of associates	4,948	731
Other comprehensive income for the period, net of tax	8,672	45,047
Total comprehensive income for the period	266,222	282,461
Total comprehensive income attributable to:		
Owners of the Company	146,349	182,619
Non-controlling interests	119,873	99,842
	266,222	282,461

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		4,362,135	4,121,103
Prepaid land lease payments		521,529	527,244
Investment properties		615,196	888,083
Interests in associates		883,649	876,998
Available-for-sale financial assets	10(a)	124,101	120,377
Goodwill		181,272	181,272
Other intangible assets		188,417	192,942
Deposits and prepayments		168,849	141,608
		7,045,148	7,049,627
Current assets			
Properties under development		791,498	493,698
Properties held for sale		132,120	55,162
Inventories		263,310	180,821
Trade receivables	11	423,884	365,417
Amounts due from grantors for contract work		106,247	106,546
Financial assets at fair value through profit or loss	10(b)	1,331	1,617
Due from non-controlling equity holders of subsidiaries		178,242	169,318
Due from associates		126,628	108,679
Prepayments, deposits and other receivables		641,784	545,512
Derivative financial assets	10(a)	111,960	109,012
Pledged deposits		18,143	17,909
Deposits and cash		812,503	1,068,079
		3,607,650	3,221,770
Assets classified as held for sale	13	-	407,271
		3,607,650	3,629,041

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
	Notes	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
Current liabilities			
Trade and bills payables	12	588,891	454,647
Accrued liabilities, deposits received and other payables		1,428,015	1,409,240
Due to non-controlling equity holders of subsidiaries		62,370	170,587
Due to an associate		4,889	5,581
Borrowings		632,419	634,279
Convertible bonds	14	539,337	–
Provision for tax		217,137	189,186
Derivative financial liabilities	14	32,912	37,960
		3,505,970	2,901,480
Liabilities classified as held for sale	13	–	117,310
		3,505,970	3,018,790
Net current assets		101,680	610,251
Total assets less current liabilities		7,146,828	7,659,878
Non-current liabilities			
Borrowings		1,715,607	1,755,632
Due to non-controlling equity holders of subsidiaries		117,100	33,444
Convertible bonds	14	–	536,015
Deferred government grants		53,118	54,522
Deferred tax liabilities		258,205	238,824
		2,144,030	2,618,437
Net assets		5,002,798	5,041,441
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	14,515	14,521
Proposed dividend		29,029	43,562
Reserves		3,229,236	3,189,286
		3,272,780	3,247,369
Non-controlling interests		1,730,018	1,794,072
Total equity		5,002,798	5,041,441

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

**Six months ended
30 September**

	2012	2011
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	319,944	196,954
Net cash outflow from investing activities	(345,176)	(336,172)
Net cash (outflow)/inflow from financing activities	(198,374)	246,409
(Decrease)/Increase in cash and cash equivalents	(223,606)	107,191
Cash and cash equivalents at beginning of period	985,458	787,445
Effect of foreign exchange rates, net	-	22,001
Cash and cash equivalents at end of period	761,852	916,637
Analysis of balances of cash and cash equivalents		
Bank and cash balances	761,852	916,637

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital (unaudited) HK\$'000	Proposed dividend (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share options reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available-for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000	Non-controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
Balance at 1 April 2012	14,521	43,562	438,701	2,035	1,168,005	347,694	5,204	(319,652)	2,898	120,611	1,423,790	3,247,369	1,794,072	5,041,441
Share repurchase (note 15(a))	(6)	-	(1,161)	-	-	-	-	-	-	-	-	(1,167)	-	(1,167)
Share repurchase expenses	-	-	(6)	-	-	-	-	-	-	-	-	(6)	-	(6)
Arising from acquisition of subsidiaries and business	-	-	-	-	-	-	-	-	-	-	-	-	2,118	2,118
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	(42,848)	-	-	-	(42,848)	(31,059)	(73,907)
Arising from disposal of subsidiaries (note 13(a))	-	-	-	-	-	(18,241)	-	(9,579)	-	(5,553)	-	(33,373)	(158,231)	(191,604)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	8,378	8,378
Final dividend paid (note 9(b))	-	(43,562)	-	-	18	-	-	-	-	-	-	(43,544)	-	(43,544)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(5,133)	(5,133)
Transactions with owners	(6)	(43,562)	(1,167)	-	18	(18,241)	-	(52,427)	-	(5,553)	-	(120,958)	(183,927)	(304,865)
Proposed interim dividend	-	29,029	-	-	(29,029)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	6	-	-	-	-	-	-	(6)	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	137,677	137,677	119,873	257,550
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	3,724	-	-	3,724	-	3,724
- Share of other comprehensive income of associates	-	-	-	-	-	6,468	-	(1,520)	-	-	-	4,948	-	4,948
Total comprehensive income for the period	-	-	-	-	-	6,468	-	(1,520)	3,724	-	137,677	146,349	119,873	266,222
Balance at 30 September 2012	14,515	29,029	437,534	2,041	1,138,994	335,921	5,204	(373,599)	6,622	115,058	1,561,461	3,272,780	1,730,018	5,002,798

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Equity attributable to owners of the Company													Total equity HK\$'000	
	Share capital (unaudited) HK\$'000	Proposed dividend (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Treasury shares (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share options reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available-for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Non-controlling interests		
													Total		Total
													(unaudited) HK\$'000		(unaudited) HK\$'000
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 (note 15(b))	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)
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 (note 9(d))	-	(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)	-	(4,465)	-	-	(231,972)	-	-	-	221,409	(48,515)	172,894
Proposed interim dividend	-	30,694	-	-	-	(30,694)	-	-	-	-	-	-	-	-	-
Transfer to capital redemption reserve	-	-	-	-	868	-	-	-	-	-	-	(868)	-	-	-
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
Balance at 30 September 2011	15,347	30,694	625,572	(47,551)	1,209	1,210,480	312,172	9,450	(260,893)	(2,643)	93,870	1,280,953	3,268,660	1,520,024	4,788,684

Notes:

1. Basis of preparation

The unaudited condensed consolidated 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 2012 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 2012.

In the current interim period, the Group has applied for the first time the following new standards, amendments and interpretations ("New and Revised HKFRSs") issued by HKICPA:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standard – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

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 and build-operate-transfer 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 fair value (loss)/gain on financial assets at fair value through profit or loss, change in fair value of derivative financial instruments, gain on disposal of assets and liabilities classified as held for sale, finance costs, share of results of associates, corporate income, corporate expense, income tax expense and loss on redemption of convertible bonds.

Segment assets 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 2012

	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	769,425	23,645	78,087	-	135,530	1,006,687
From inter-segment	-	-	-	-	-	-
Segment revenue	769,425	23,645	78,087	-	135,530	1,006,687
Segment profit/(loss)	261,678	10,647	97,237	(1,842)	19,891	387,611
Unallocated corporate income						14,820
Unallocated corporate expense						(43,400)
Gain on disposal of assets and liabilities classified as held for sale						41,333
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)						7,939
Loss on redemption of convertible bonds						(142)
Finance costs						(60,416)
Share of results of associates	5,058	-	(7,436)	-	-	(2,378)
Profit before income tax						345,367
Income tax expense						(87,817)
Profit for the period						257,550
Total segment assets	5,534,548	245,731	1,848,220	146,640	573,928	8,349,067

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 and liabilities 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	5,062	-	9,202	-	-	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>

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

	Consolidated Six months ended 30 September	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Interest income	9,670	13,479
Dividend income from financial assets	224	2,249
Government grants and subsidies	13,177	3,944
Miscellaneous income	7,246	7,018
Total	30,317	26,690

5. Profit from operation

Profit from operation is arrived at after charging:

	Consolidated Six months ended 30 September	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Depreciation	108,970	90,757
Amortisation of prepaid land lease payments	8,651	7,618
Amortisation of other intangible assets	4,453	4,127

6. Finance costs

	Consolidated Six months ended 30 September	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Interest on bank loans	52,052	44,011
Interest on other borrowings	9,088	8,270
Interest on convertible bonds	19,672	24,683
Total borrowing costs	80,812	76,964
Less: interest capitalised included in property, plant and equipment and properties under development	(20,396)	(16,930)
	60,416	60,034

7. Income tax expense

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2011: Nil). Income tax expense for other jurisdictions is calculated at the rates of taxation prevailing in the relevant jurisdictions.

	Consolidated Six months ended 30 September	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Current		
– PRC	68,438	64,161
Deferred		
– tax charge for the period	19,379	7,720
Total tax charge for the period	87,817	71,881

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\$137,677,000 (2011: HK\$150,906,000) and on the weighted average of 1,451,765,382 (2011: 1,513,804,002) ordinary shares in issue during the period.

For the financial period ended 30 September 2012, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$137,677,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was HK\$152,358,000 and on the adjusted weighted average of 1,626,654,400 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,451,765,382 used in basic earnings per share calculation and adjusted for the effect of deemed exercise or conversion of convertible bonds existing during the period of 174,889,018.

No diluted earnings per share are presented for the financial period ended 30 September 2011 as the impact of the potential dilutive ordinary shares outstanding has an anti-dilutive effect on the basic earnings per share presented for the period.

9. Dividends

(a) Dividends attributable to the interim period

	Consolidated Six months ended 30 September	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
Interim dividend		
– HK\$0.02 (2011: HK\$0.02) per ordinary share	29,029	30,694

The interim dividend proposed after the reporting date for the financial periods ended 30 September 2012 and 2011 have 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 2012 and 2011 respectively.

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

	2012 HK\$'000	2011 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.03 (2011: HK\$0.03) per ordinary share	43,562	41,576
Adjustment to the final dividend*	(18)	4,465
	43,544	46,041

* The adjustment was due to placing and subscription of new shares and share repurchase prior to the record 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

	As at	
	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (i))	63,585	59,861
Unlisted equity securities outside Hong Kong, at cost (note (ii))	60,516	60,516
	124,101	120,377

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. 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 2012 and 30 September 2012.

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 2012 is 8.555%. The fair value of the debt element has been determined by RHL Appraisal Limited, an independent firm of professional valuers.

The fair value of the conversion options element is 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:

	As at	
	30 September 2012	31 March 2012
Stock price	HK\$0.67	HK\$0.62
Expected volatility	76.636%	84.339%
Risk free rate	0.325%	0.643%
Expected dividend yield	Nil	Nil

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

	Debt element – Unlisted debt securities HK\$'000	Conversion options element – Conversion options embedded in convertible bonds HK\$'000
Net carrying amount at 1 April 2011	63,475	47,390
Change in fair value		
– credited to profit or loss	–	61,622
– charged to equity	(3,614)	–
Net carrying amount at 31 March 2012 and at 1 April 2012	59,861	109,012
Change in fair value		
– credited to profit or loss	–	2,948
– credited to equity	3,724	–
Net carrying amount at 30 September 2012	63,585	111,960

- (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	
	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
Listed equity securities, at market value:		
– Elsewhere	1,331	1,617

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	
	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
0 to 90 days	178,174	138,759
91 to 180 days	53,643	49,682
Over 180 days	192,067	176,976
	423,884	365,417

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

Trade receivables that were past due but not impaired relate to customers that have good track record with the Group. 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 and bills payables

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

	As at	
	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
0 to 90 days	278,907	109,537
91 to 180 days	61,500	82,781
Over 180 days	248,484	262,329
	588,891	454,647

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

As at 30 September 2012, the bills payables of HK\$47,585,000 (31 March 2012: HK\$15,243,000) were secured by the pledged bank deposits of HK\$6,914,000 (31 March 2012: HK\$4,696,000).

13. Assets and liabilities classified as held for sale

- (a) On 20 March 2012, the Company and 上海倍臣水務發展有限公司, an indirect wholly owned subsidiary of the Company, entered into agreement with 江門市新會區國有資產管理辦公室 to sell 50% equity interest in 廣東新會水務有限公司 ("Xinhui Water") and its subsidiaries (collectively "Xinhui Group") at the consideration of RMB114.5 million. Further details of which are disclosed in the Company's announcement dated 20 March 2012.

During the year ended 31 March 2012, the disposal of 50% equity interest in Xinhui Group was not completed and the relevant assets and liabilities attributable to disposals were presented as "assets and liabilities classified as held for sale" as at 31 March 2012. The major classes of assets and liabilities of Xinhui Group classified as held for sale as at 31 March 2012 are as follows:

	2012
	HK\$'000
Assets	
Property, plant and equipment	188,876
Prepaid land lease payments	42,046
Goodwill	828
Investment properties	13,333
Inventories	14,380
Trade receivable	15,594
Prepayments, deposits and other receivables	113,527
Pledged deposits	12,651
Cash and cash equivalents	6,036
	<hr/>
Assets classified as held for sale	407,271
	<hr/> <hr/>
Liabilities	
Trade payables	27,462
Accrued liabilities, deposits received and other payables	48,707
Borrowings	39,136
Provision for tax	2,005
	<hr/>
Liabilities classified as held for sale	117,310
	<hr/> <hr/>

During the period ended 30 September 2012, the disposal of 50% equity interest in Xinhui Group was completed and the Group recognised a gain on disposal of assets and liabilities classified as held for sale of HK\$41,333,000.

- (b) 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 represented the carrying amount of HK\$84,158,000 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.

14. Convertible bonds

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

	Convertible Bonds (note) HK\$'000
Liability component	
Net carrying amount at 1 April 2011	569,141
Arising from repurchases	(62,401)
Interest expenses	44,239
Interest on convertible bonds paid	(14,964)
	<hr/>
Net carrying amount at 31 March 2012 and at 1 April 2012	536,015
Arising from repurchases	(9,656)
Interest expenses	19,672
Interest on convertible bonds paid	(6,694)
	<hr/>
Net carrying amount at 30 September 2012	539,337
Derivative component – classified as current liabilities	
Net carrying amount at 1 April 2011	25,981
Arising from repurchases	(4,148)
Change in fair value of derivative financial instruments	16,127
	<hr/>
Net carrying amount at 31 March 2012 and at 1 April 2012	37,960
Arising from repurchases	(57)
Change in fair value of derivative financial instruments	(4,991)
	<hr/>
Net carrying amount at 30 September 2012	32,912

Note:

On 10 March 2010, the Company entered into a subscription agreement with DBS Bank Limited ("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 "Convertible Bonds") at 2.5% coupon rate per annum with maturity on 15 April 2015. The 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 "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 Conversion Price on the 15 April 2011, the Conversion Price shall be reset to the Average Market Price (the "Conversion Price Reset") provided that the 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, 6 September 2011 and 12 September 2012, the Convertible Price was reset to HK\$3.96, HK\$3.93, HK\$3.10, HK\$3.07 and HK\$2.99 respectively. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 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 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 Conversion Price on such trading day.

On 15 April 2013, the bondholders of the Convertible Bonds will have the right at such holders' option, to require the Company to redeem all or some of the Convertible Bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013. To exercise such right, the holder of the Convertible Bonds must complete, sign and deposit at the specified office of any paying agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any paying agent together with the certificate evidencing the Convertible Bonds to be redeemed by not less than 15 days nor more than 60 days before 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 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.

During the year ended 31 March 2012, the Company repurchased the Convertible Bonds in principal amount of HK\$64,500,000 at an aggregate amount of HK\$58,050,000. After completion of the above repurchase, the outstanding principal amount of the Convertible Bonds is HK\$535,500,000. The Group recognised a gain on redemption of the Convertible Bonds of HK\$8,419,000 (after bank charges) during the year ended 31 March 2012.

During the six months ended 30 September 2012, the Company repurchased the Convertible Bonds with an aggregate principal amount of HK\$9,000,000 at the total consideration of HK\$9,810,000. After completion of the above purchase, the outstanding principal amount of the Convertible Bonds is HK\$526,500,000. The Group recognised a loss on redemption of the Convertible Bonds of HK\$142,000 (after bank charges) during the period ended 30 September 2012.

The Group determined that the 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.

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

	As at	
	30 September 2012	31 March 2012
Stock price	HK\$2.16	HK\$2.68
Expected volatility	34.185%	26.300%
Risk free rate	0.255%	0.336%

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 2012 results in a fair value gain of HK\$4,991,000 (2011: fair value loss of HK\$12,610,000), 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 2012.

Interest expenses are calculated using the effective interest method by applying the effective interest rate of 7.51% to the adjusted liability component.

Because of the possible early redemption by the bondholders of the Convertible Bonds and as the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after 30 September 2012, the Convertible Bonds which are carried at amortised cost, amounted to HK\$539,337,000 are classified under current liability as at 30 September 2012.

15. Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2012 and 31 March 2012	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2011	1,385,872	13,859
Subscription of new shares (<i>note (b)</i>)	235,598	2,356
Repurchased and cancelled (<i>note (c)</i>)	<u>(169,388)</u>	<u>(1,694)</u>
Ordinary shares of HK\$0.01 each at 31 March 2012 and 1 April 2012	1,452,082	14,521
Repurchased and cancelled (<i>note (a)</i>)	<u>(624)</u>	<u>(6)</u>
Ordinary shares of HK\$0.01 each at 30 September 2012	<u>1,451,458</u>	<u>14,515</u>

Notes:

- (a) During the period ended 30 September 2012, the Company repurchased a total of 624,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$1,167,000. The highest price paid and the lowest price paid was HK\$1.89 and HK\$1.85 respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.
- (b) 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.
- (c) During the year ended 31 March 2012, the Company repurchased a total of 169,388,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$417,788,000. The highest price paid and the lowest price paid was HK\$2.88 and HK\$1.80 respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

16. Pledge of assets

- (i) The Group's bank loans, other loans and bills payables at 30 September 2012 were secured by:
 - (a) pledge of water and sewage treatment revenue of certain subsidiaries;
 - (b) guarantees by 江西省水利水電開發總公司, 常州市武進供水總公司, 惠州市銀龍實業有限公司 and 常州市武進天龍設備安裝工程有限公司;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2012 was HK\$160,264,000 (31 March 2012: HK\$161,890,000);
 - (d) charges over interests in land use rights in which their aggregate carrying amount as at 30 September 2012 was HK\$149,400,000 (31 March 2012: HK\$145,355,000);
 - (e) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2012 was HK\$188,417,000 (31 March 2012: HK\$192,942,000); and
 - (f) charges over the Group's bank deposits in the amount of HK\$18,143,000 at 30 September 2012 (31 March 2012: HK\$17,909,000).

- (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 facility of US\$36 million was fully utilised (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.

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:

	Consolidated Six months ended 30 September	
	2012 (unaudited) HK\$’000	2011 (unaudited) HK\$’000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	22,245	20,239
– Retirement scheme contribution	62	28
	22,307	20,267

- (b) During the period ended 30 September 2012, the Group enter into an agreement with 寧夏沙坡頭水利樞紐有限責任公司, a non-controlling equity holder of a subsidiary of the Group, to acquire the remaining 15.11% equity interest in 北京上河元酒店有限公司 (the "Beijing Shangheyuan Target") at cash consideration of RMB55,065,000 (approximately HK\$67,981,000). After completion, the Group will hold the entire interest in the Beijing Shangheyuan Target. The acquisition constitutes a connected 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 2012.

18. Commitments

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

(i) *Capital commitments*

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

	30 September 2012 (unaudited) HK\$'000	As at 31 March 2012 (audited) HK\$'000
Contracted, but not provided for		
– Investment properties under construction	106,279	122,569
– Construction in progress	45,760	28,916
– Plant and machinery	34,826	13,405
– Water pipelines	73,381	104,215
	260,246	269,105

(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:

	As at	
	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
Within one year	21,590	19,443
In the second to fifth years, inclusive	76,213	68,503
After five years	189,856	217,976
	287,659	305,922

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:

	As at	
	30 September 2012 (unaudited) HK\$'000	31 March 2012 (audited) HK\$'000
Within one year	5,217	3,640
In the second to fifth years, inclusive	2,471	2,920
After five years	–	271
	7,688	6,831

19. Contingent liabilities

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

20. Post reporting date events

The Group had the following material event after 30 September 2012:

On 8 October 2012, the Group and 蘆溪縣供水公司 ("Luxi Company") entered into the equity joint venture agreement pursuant to which the parties agreed to establish a joint venture company which will be principally engaged in tap water production and supply and installation services in Luxi county, Jiangxi province, PRC.

The registered capital of the new joint venture company will be RMB52,308,750, of which the Group will contribute 60% by way of cash and Luxi Company will contribute 40% by way of the injection of the existing water supply assets (including water pipes network and other assets and related liabilities but excluding land use right) of Luxi Company. It is expected that the total investment amount of the joint venture company will be RMB130 million.



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 2012 (2011: HK\$0.02 per ordinary share). The interim dividend will be payable on or about Friday, 28 December 2012 to the shareholders whose names appear on the register of member on Wednesday, 19 December 2012.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$867.4 million for the six months ended 30 September 2011 to HK\$1,006.7 million for the six months ended 30 September 2012, representing an increase of 16.1%. The Group maintained a stable growth in its "Water" segment. For the period under review, the total revenue attributable to the "Water" segment amounted to HK\$793.1 million, represented an increase of 9.5% when compared with the total "water" segment revenue of HK\$724.0 million in the corresponding period. This organic growth of "Water" segment revenue 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\$769.4 million (2011: HK\$702.1 million), representing an increase of 9.6% 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\$261.7 million (2011: HK\$256.4 million), representing an increase of 2.1% as compared with the last corresponding period.

(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\$23.6 million (2011: HK\$21.9 million), representing an increase of 7.8% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$10.6 million (2011: HK\$10.5 million), representing an increase of 1.0% 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, Hunan and Hubei provinces of China.

For the period under review, the revenue from the property business segment amounted to HK\$78.1 million (2011: HK\$4.6 million). The total property business segment profit amounted to HK\$97.2 million (2011: HK\$47.3 million), representing an increase of 105.5% as compared with the last corresponding period, which was mainly due to the sales of a property project in Hunan province and the fair value gain on investment properties amounted to HK\$72.5 million (2011: HK\$53.7 million). The Group expected that its performance would be further strengthened by the realisation of value from the Group's property development and investment projects in the near future.

For the period under review, the Group recorded a gain on disposal of assets and liabilities classified as held for sale amounted to HK\$41.3 million, which represented the gain on disposal of 50% equity interest in 廣東新會水務有限公司. For the corresponding 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. 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

The lingering sovereign debts crisis in Europe and the slow recovery of US economy continued to add uncertainties and volatilities in global financial market. The recent announcement by the Federal Reserve of the third round of quantitative easing (QE3) has augmented worldwide concerns over the formulation of fiscal policies and its impacts to economies and currencies of other countries. Under the current challenging environment, the Group will adhere firmly the implementation of its established strategy. The Chinese Central Government has recently issued more details in respect of national planning and long term vision of upto Year 2020 in respect of water supply infrastructure. The Group anticipates that the favorable marco-control policy will benefit the entire industry chain and continue to provide unprecedented opportunities for the Group, especially the Group's core business of water supply. Meanwhile, the Group will pay close attention to the policy trend and market changes to uphold and accelerate its leading position of integrated water solution provider.

The Group will continue to focus on the potential opportunities to strengthen its cash flow conditions by enlarging the cooperation with its investors and creditors and grasp prime investment opportunities in conservative approach.

CONVERTIBLE BONDS

During the six months ended 30 September 2012, the Company repurchased the convertible bonds with an aggregate principal amount of HK\$9,000,000 at the total consideration of HK\$9,810,000. After completion of the above repurchase, the outstanding principal amount of the convertible bonds as at 30 September 2012 is HK\$526,500,000.

On 15 April 2013, the bondholders of the convertible bonds will have the right at such holders' option, to require the Company to redeem all or some of the convertible bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013. Because of such possible early redemption by the bondholders of the convertible bonds and as the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after 30 September 2012, the convertible bonds which are carried at amortised cost, amounted to HK\$539,337,000 are classified under current liability as at 30 September 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2012, the Group has total cash and deposits balances of approximately HK\$830.6 million (31 March 2012: HK\$1,086.0 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 53.0% (31 March 2012: 52.8%) as at 30 September 2012. The current ratio is 1.03 times (31 March 2012: 1.20 times) as at 30 September 2012. 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 2012, the Group has employed approximately 5,200 staff. Most of them are stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2012, the interests and short positions of the directors and chief executives 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 Companies ("Model Code") were as follows:

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 (<i>Note</i>)	Corporate and personal	322,874,301	–	22.24%
Mr. Chen Guo Ru	Personal	3,500,000	–	0.24%
Mr. Zhao Hai Hu	Personal	1,306,000	–	0.09%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%

Note: These 322,874,301 shares consist 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.

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2012, so far as is known to any director 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 which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholder	Capacity/Nature of interest	Number of shares			Approximate percentage of shareholding in the Company		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	322,874,301	-	-	22.24%	-	-
Asset Full Resources Limited (Note (i))	Beneficial	143,578,301	-	-	9.89%	-	-
Atlantis Capital Holdings Limited (Note (ii))	Interest in a controlled corporation	182,450,000	-	-	12.57%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	20.06%	-	-
JP Morgan Chase & Co.	Beneficial/Custodian	145,996,033	600,000	113,684,000	10.06%	0.04%	7.83%
Norges Bank	Beneficial	115,684,000	-	-	7.97%	-	-
Deutsche Bank Aktiengesellschaft	Beneficial/Investment manager/Person having a security interest in shares/Custodian	80,885,835	10,202,160	368,000	5.57%	0.70%	0.03%

Notes:

- (i) These shares are beneficially owned by and registered in the name of 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) Controlling shareholder is Ms. Liu Yang.

Save as disclosed above, as at 30 September 2012, 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 which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The board of directors (the "Board") 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 practices 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 2012, the Company applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

Code Provision A.2.1

Mr. Duan Chuan Liang serves as the chairman of the Company. The function of chief executive officer is collectively performed by the executive directors (being Mr. Duan Chuan Liang and Mr. Li Ji Sheng), which deviates from the requirement under Code Provision A.2.1 that the roles of the chairman and chief executive officer should be segregated. 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.2.7

Under Code Provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As Mr. Duan Chuan Liang, the chairman of the Company, is an executive director of the Company, the Company cannot hold such a meeting where no executive director shall be present.

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.

Code Provision A.6.7

Under Code Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors, should attend general meetings and develop a balanced understanding of the views of shareholders. Certain non-executive directors and independent non-executive directors were unable to attend the Company's annual general meeting held on 7 September 2012 due to other business commitments.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by its directors. Having made specific enquiry of all the directors, all the directors have confirmed compliance with the required standard set out in the Model Code throughout the six months ended 30 September 2012.

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

During the six months ended 30 September 2012, the Company repurchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration
		per share HK\$	per share HK\$	(excluding expenses) HK\$
June 2012	624,000	1.89	1.85	1,167,000

During the period ended 30 September 2012, the Company repurchased a total of 624,000 ordinary shares of HK\$0.01 each in the capital of the Company. 624,000 of the repurchased shares were cancelled in August 2012. 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 purchase of the Company's shares during the period was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 December 2012 to Wednesday, 19 December 2012 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 2012, 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, 14 December 2012.

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 accounts for the six months ended 30 September 2012 with the directors.

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

Hong Kong, 30 November 2012

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