



INTERIM REPORT 2013/14



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855

* For identification purposes only

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)

Ms. Ding Bin (appointed on 28 June 2013)

Non-executive

Mr. Zhao Hai Hu

Mr. Chen Guo Ru

Mr. Zhou Wen Zhi

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

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

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 2013, together with the comparative figures for the corresponding period in 2012, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
	<i>Notes</i>		
Revenue	3	1,144,994	1,006,687
Cost of sales		(614,453)	(538,243)
Gross profit		530,541	468,444
Other income	4	71,557	30,317
Selling and distribution costs		(48,786)	(42,717)
Administrative expenses		(191,835)	(169,530)
Fair value gain on investment properties		49,521	72,517
Gain on disposal of assets and liabilities classified as held for sale	13	-	41,333
Change in fair value of derivative financial instruments		(4,288)	7,939
Loss on repurchase/redemption of convertible bonds	14	(1,657)	(142)
Profit from operation	5	405,053	408,161
Finance costs	6	(53,557)	(60,416)
Share of results of associates		26,915	(2,378)
Profit before income tax		378,411	345,367
Income tax expense	7	(100,692)	(87,817)
Profit for the period		277,719	257,550

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

	<i>Notes</i>	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Profit for the period attributable to:			
Owners of the Company		156,711	137,677
Non-controlling interests		121,008	119,873
		277,719	257,550
Earnings per share for profit attributable to owners of the Company during the period			
	8	HK cents	HK cents
Basic		10.88	9.48
Diluted		N/A	9.37

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Profit for the period	277,719	257,550
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
– Change in fair value of available-for-sale financial assets	2,156	3,724
– Currency translation	55,477	–
– Share of other comprehensive income of associates	15,164	4,948
Other comprehensive income for the period, net of tax	72,797	8,672
Total comprehensive income for the period	350,516	266,222
Total comprehensive income attributable to:		
Owners of the Company	207,268	146,349
Non-controlling interests	143,248	119,873
	350,516	266,222

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
<i>Notes</i>			
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		4,996,791	4,744,518
Prepaid land lease payments		537,355	521,781
Investment properties		847,122	740,283
Interests in associates		1,125,031	966,412
Available-for-sale financial assets	10(a)	161,711	161,946
Goodwill		240,275	185,775
Other intangible assets		185,596	187,756
Deposits and prepayments		341,580	207,384
		8,435,461	7,715,855
Current assets			
Properties under development		993,667	803,542
Properties held for sale		86,272	75,605
Inventories		288,854	191,363
Trade and bills receivables	11	642,596	530,385
Amounts due from grantors for contract work		328,914	111,076
Financial assets at fair value through profit or loss	10(b)	1,394	1,447
Due from non-controlling equity holders of subsidiaries		406,818	359,727
Due from associates		205,000	118,588
Prepayments, deposits and other receivables		873,939	670,514
Derivative financial assets	10(a)	109,122	103,990
Pledged deposits		104,490	49,685
Deposits and cash		1,566,535	918,146
		5,607,601	3,934,068

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
		30 September 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
	Notes		
Current liabilities			
Trade and bills payables	12	514,262	530,168
Accrued liabilities, deposits received and other payables		1,964,614	1,797,356
Due to non-controlling equity holders of subsidiaries		184,385	198,817
Due to associates		55,774	49,454
Borrowings	15	3,171,981	653,120
Convertible bonds	14	165,120	300,197
Provision for tax		285,912	248,858
Derivative financial liabilities	14	15,514	14,513
		6,357,562	3,792,483
Net current (liabilities)/assets		(749,961)	141,585
Total assets less current liabilities		7,685,500	7,857,440
Non-current liabilities			
Borrowings	15	1,457,835	2,075,636
Due to non-controlling equity holders of subsidiaries		308,141	21,740
Convertible bonds	14	-	196,641
Deposits received		16,026	9,658
Deferred government grants		51,484	52,296
Deferred tax liabilities		350,187	307,536
		2,183,673	2,663,507
Net assets		5,501,827	5,193,933
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	14,430	14,430
Proposed dividend		28,861	43,291
Reserves		3,468,624	3,325,479
		3,511,915	3,383,200
Non-controlling interests		1,989,912	1,810,733
Total equity		5,501,827	5,193,933

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

**Six months ended
30 September**

	2013	2012
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	11,878	319,944
Net cash outflow from investing activities	(680,073)	(345,176)
Net cash inflow/(outflow) from financing activities	1,324,606	(198,374)
Increase/(Decrease) in cash and cash equivalents	656,411	(223,606)
Cash and cash equivalents at beginning of period	918,146	985,458
Effect of foreign exchange rates, net	(8,022)	–
Cash and cash equivalents at end of period	1,566,535	761,852
Analysis of balances of cash and cash equivalents		
Bank and cash balances	1,566,535	761,852

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital	Proposed dividend	Share premium account	Treasury shares	Capital redemption reserve	Contributed surplus	Exchange fluctuation reserve	Share options reserve	Other reserves	Available-for-sale financial assets revaluation reserve	Statutory reserves	Retained earnings	Total	Non-controlling interests	Total equity
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(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	HK\$'000
Balance at 1 April 2013	14,430	43,291	417,773	-	2,126	1,095,703	357,612	5,204	(384,213)	6,707	151,625	1,672,942	3,383,200	1,810,733	5,193,933
Share repurchase (note 16)	-	-	-	(68,364)	-	-	-	-	-	-	-	(68,364)	-	(68,364)	
Share repurchase expenses	-	-	-	(244)	-	-	-	-	-	-	-	(244)	-	(244)	
Arising from acquisition of subsidiaries and business	-	-	-	-	-	-	-	-	-	-	-	-	-	9,415	9,415
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	32,967	-	-	-	32,967	(41,885)	(8,918)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	92,076	92,076
Final dividend paid (note 9(f))	-	(43,291)	-	-	-	379	-	-	-	-	-	-	(42,912)	-	(42,912)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,675)	(23,675)
Transactions with owners	-	(43,291)	-	(68,608)	-	379	-	-	32,967	-	-	-	(78,553)	35,931	(42,622)
Proposed interim dividend	-	28,861	-	-	-	(28,861)	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	156,711	156,711	156,711	121,008	277,719
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	2,156	-	-	2,156	-	2,156
- Currency translation	-	-	-	-	-	-	33,237	-	-	-	-	-	33,237	22,240	55,477
- Share of other comprehensive income of associates	-	-	-	-	-	-	6,241	-	8,923	-	-	-	15,164	-	15,164
Total comprehensive income for the period	-	-	-	-	-	-	39,478	-	8,923	2,156	-	156,711	207,268	143,248	350,516
Balance at 30 September 2013	14,430	28,861	417,773	(68,608)	2,126	1,067,221	397,090	5,204	(342,323)	8,863	151,625	1,829,653	3,511,915	1,989,912	5,501,827

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

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	Non-controlling interests		Total equity (unaudited) HK\$'000
												Total (unaudited) HK\$'000	Total (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	1,425,790	3,247,369	1,794,072	5,041,441
Share repurchase (note 16)	-	(6)	(1,161)	-	-	-	-	-	-	-	-	-	(1,167)	(1,167)
Share repurchase expenses	-	-	(6)	-	-	-	-	-	-	-	-	-	(6)	(6)
Arising from acquisition of subsidiaries and business	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	(42,848)	-	-	-	(42,848)	(31,059)	(73,907)
Arising from disposal of subsidiaries (note 13(c))	-	-	-	-	-	(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(d))	-	(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)	-	(120,938)	(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

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 2013 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 2013.

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:

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of items of other comprehensive income
Amendments to HKFRS 1	Governments loans
Amendments to HKFRS 7	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (2011)	Employee benefit
HKAS 27 (2011)	Separate financial statements
HKAS 28 (2011)	Investments in associates and joint ventures

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); and
- (ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation.

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, other infrastructure construction 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, except that 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 repurchase/redemption of convertible bonds are excluded from segment results.

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 2013

	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue					
From external customers	868,544	35,240	36,040	205,170	1,144,994
From inter-segment	-	-	-	-	-
Segment revenue	<u>868,544</u>	<u>35,240</u>	<u>36,040</u>	<u>205,170</u>	<u>1,144,994</u>
Segment profit	<u>355,391</u>	<u>12,177</u>	<u>40,992</u>	<u>20,230</u>	<u>428,790</u>
Unallocated corporate income					27,844
Unallocated corporate expense					(45,636)
Change in fair value of derivative financial instruments					(4,288)
Loss on repurchase/redemption of convertible bonds					(1,657)
Finance costs					(53,557)
Share of results of associates	4,036	-	22,879	-	26,915
Profit before income tax					378,411
Income tax expense					(100,692)
Profit for the period					<u>277,719</u>
Total segment assets	<u>6,623,061</u>	<u>545,335</u>	<u>2,503,415</u>	<u>894,138</u>	<u>10,565,949</u>

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	All other segments (Restated) (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	<u>769,425</u>	<u>23,645</u>	<u>78,087</u>	<u>135,530</u>	<u>1,006,687</u>
Segment profit	<u>261,678</u>	<u>10,647</u>	<u>97,237</u>	<u>18,049</u>	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					7,939
Loss on repurchase 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					<u>257,550</u>
Total segment assets	<u>5,534,548</u>	<u>245,731</u>	<u>1,848,220</u>	<u>720,568</u>	<u>8,349,067</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.

"Other infrastructure construction" segment has been combined to "All other segments" this period. Certain comparative figures of segment information were therefore restated.

4. Other income

	Consolidated Six months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Interest income	23,254	9,670
Dividend income from financial assets	2,633	224
Government grants and subsidies	30,772	13,177
Miscellaneous income	14,898	7,246
Total	71,557	30,317

5. Profit from operation

Profit from operation is arrived at after charging:

	Consolidated Six months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Depreciation	123,929	108,970
Amortisation of prepaid land lease payments	9,304	8,651
Amortisation of other intangible assets	4,549	4,453

6. Finance costs

	Consolidated Six months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Interest on bank loans	89,387	52,052
Interest on other borrowings	11,019	9,088
Interest on convertible bonds	7,482	19,672
Total borrowing costs	107,888	80,812
Less: interest capitalised included in property, plant and equipment and properties under development	(54,331)	(20,396)
	53,557	60,416

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 (2012: 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	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Current		
– PRC	78,490	68,438
Deferred		
– tax charge for the period	22,202	19,379
Total tax charge for the period	100,692	87,817

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\$156,711,000 (2012: HK\$137,677,000) and on the weighted average of 1,440,240,785 (2012: 1,451,765,382) ordinary shares in issue during the period.

No diluted earnings per share are presented for the financial period ended 30 September 2013 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.

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.

9. Dividends

(a) Dividends attributable to the interim period

	Consolidated Six months ended 30 September	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Interim dividend		
– HK\$0.02 (2012: HK\$0.02) per ordinary share	28,861	29,029

The interim dividend proposed after the reporting date for the financial period ended 30 September 2013 and 2012 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 2013 and 2012 respectively.

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

	2013 HK\$'000	2012 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.03 (2012: HK\$0.03) per ordinary share	43,291	43,562
Adjustment to the final dividend*	(379)	(18)
	42,912	43,544

* The adjustment was due to 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 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (i))	65,826	63,670
Unlisted equity securities outside Hong Kong, at cost (note (ii))	95,885	98,276
	161,711	161,946

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\$81,550,000 as at 1 April 2012. During the six months ended 30 September 2013 and the year ended 31 March 2013, there was no disposal or conversion of the Water Property Convertible Bonds.

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 2013 is 9.249%. 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 2013	31 March 2013
Stock price	HK\$0.74	HK\$0.65
Expected volatility	50.750%	71.490%
Risk free rate	0.889%	0.465%
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 2012	59,861	109,012
Change in fair value		
– charged to profit or loss	–	(5,022)
– credited to equity	3,809	–
Net carrying amount at 31 March 2013 and at 1 April 2013	63,670	103,990
Change in fair value		
– credited to profit or loss	–	5,132
– credited to equity	2,156	–
Net carrying amount at 30 September 2013	65,826	109,122

- (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 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
Listed equity securities, at market value:		
– Elsewhere	1,394	1,447

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.

11. Trade and bills receivables

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

	As at	
	30 September 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
0 to 90 days	320,860	202,771
91 to 180 days	90,930	117,129
Over 180 days	230,806	210,485
	642,596	530,385

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 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
0 to 90 days	243,900	201,233
91 to 180 days	58,495	96,293
Over 180 days	211,867	232,642
	514,262	530,168

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

As at 30 September 2013, the bills payables of HK\$62,930,000 (31 March 2013: HK\$52,761,000) were secured by the pledged bank deposits of HK\$30,728,000 (31 March 2013: HK\$36,032,000).

13. Assets and liabilities classified as held for sale

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/>
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/>

During the six months 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.

14. Convertible bonds

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

	Convertible Bonds	
	<i>(note)</i>	
Liability component	HK\$'000	
Net carrying amount at 1 April 2012		536,015
Arising from repurchases		(65,053)
Interest expenses		39,594
Interest on convertible bonds paid		(13,718)
		<hr/>
Net carrying amount at 31 March 2013 and at 1 April 2013		496,838
Arising from repurchases/redemption		(333,161)
Interest expenses		7,482
Interest on convertible bonds paid		(6,039)
		<hr/>
Net carrying amount at 30 September 2013		165,120
		<hr/> <hr/>
	As at	
	30 September	31 March
	2013	2013
	(unaudited)	(audited)
	HK\$'000	HK\$'000
		<hr/>
Current portion	165,120	300,197
Non-current portion	–	196,641
		<hr/>
	165,120	496,838
		<hr/> <hr/>
Derivative component – classified as current liabilities		HK\$'000
		<hr/>
Net carrying amount at 1 April 2012		37,960
Arising from repurchases		(3,507)
Change in fair value of derivative financial instruments		(19,940)
		<hr/>
Net carrying amount at 31 March 2013 and at 1 April 2013		14,513
Arising from repurchases		(8,419)
Change in fair value of derivative financial instruments		9,420
		<hr/>
Net carrying amount at 30 September 2013		15,514
		<hr/> <hr/>

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, 12 September 2012 and 17 September 2013, the Convertible Price was reset to HK\$3.96, HK\$3.93, HK\$3.10, HK\$3.07, HK\$2.99 and HK\$2.93 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.

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.

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 provide to the Company a redemption notice ("Redemption Notice") not less than 15 days nor more than 60 days before 15 April 2013.

As of 31 March 2013, the Company received Redemption Notice of aggregate principal amount of HK\$286,700,000 at the total consideration of HK\$319,154,000. The redemption pursuant to the Redemption Notice was completed on 15 April 2013. Immediately after completion of the above redemption, the outstanding principal amount of the Convertible Bonds is HK\$187,800,000. In addition, during the six months ended 30 September 2013, the Company repurchased the Convertible Bonds with an aggregate principal amount of HK\$21,000,000 (2012: HK\$9,000,000) at the total consideration of HK\$24,033,000 (2012: HK\$9,810,000). After completion of the above repurchase, the outstanding principal amount of the Convertible Bonds is HK\$166,800,000 (2012: HK\$526,500,000). The Group recognised a loss on repurchase/redemption of the Convertible Bonds of HK\$1,657,000 (2012: HK\$142,000) during the six months ended 30 September 2013.

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 2013	31 March 2013
Stock price	HK\$2.94	HK\$2.35
Expected volatility	41.405%	32.788%
Risk free rate	0.280%	0.186%

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 2013 results in a fair value loss of HK\$9,420,000 (2012: fair value gain of HK\$4,991,000), which has been included in the "Change in fair value of derivative financial instruments" in the income statement for the six months ended 30 September 2013.

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

As explained in note 15 to the interim financial statements, the Convertible Bonds at the carrying amount of HK\$165,200,000 are classified under current liability on a prudent basis as at 30 September 2013.

15. Borrowings

The Company and its wholly owned subsidiary, as borrowers have entered into the 1st facility agreement (the "1st Facility Agreement") with a bank in respect of, among others, a term loan facility of US\$100 million (the "1st Loan"). The Company as borrower has entered into the 2nd facility agreement (the "2nd Facility Agreement") with a syndicate of financial institutions as lenders in respect of a term loan facility of US\$90 million (the "2nd Loan").

Pursuant to both the 1st Facility Agreement and the 2nd Facility Agreement, the Company is required to satisfy certain financial covenants. Based on the unaudited consolidated financial statements of the Company for the six months ended 30 September 2013, the Company has failed to satisfy the said financial covenants. Such breach may also trigger the cross-default provisions in other loan agreements entered into by the Company.

The Company has formally applied for waivers in respect of the breach from the lenders under the 1st Facility Agreement and the 2nd Facility Agreement. Nevertheless the Company has on a prudent basis re-classified the 1st Loan and 2nd Loan with outstanding amount of approximately HK\$1,420,090,000 as current liabilities in the unaudited consolidated financial statements of the Company for the six months ended 30 September 2013. In addition the Company has also on a prudent basis re-classified other loan facilities with outstanding amount of approximately HK\$806,939,000 and the convertible bonds with outstanding amount of approximately HK\$165,200,000 which contain the cross-default provisions as current liabilities in the unaudited consolidated financial statements of the Company for the six months ended 30 September 2013.

Based on the Group's current cash position and operation and the Company's communications and understanding with the lenders of the Group, the Company considers that there is no material adverse impact on the operation of the Group as a result of the aforesaid matters.

16. Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2013 and 31 March 2013	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2012	1,452,082	14,521
Repurchased and cancelled*	(9,052)	(91)
Ordinary shares of HK\$0.01 each at 31 March 2013 and 30 September 2013	1,443,030	14,430

* During the six months ended 30 September 2013, the Company repurchased a total of 24,200,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$68,364,000. The highest price paid and the lowest price paid was HK\$2.95 and HK\$2.64 respectively. All the repurchased shares with a repurchased cost of approximately HK\$68,608,000 (including expenses) were held as treasury shares as at 30 September 2013.

During the year ended 31 March 2013, the Company repurchased a total of 9,052,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$20,929,000. The highest price paid and the lowest price paid was HK\$2.47 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.

17. Pledge of assets

The Group's bank loans, other loans and bills payables at 30 September 2013 were secured by:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) guarantees by 惠州市銀龍實業有限公司, 高安市國有資產營運有限責任公司, 常州市武進供水總公司 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 2013 was HK\$195,276,000 (31 March 2013: HK\$118,029,000);
- (d) charges over interests in land use rights in which their aggregate carrying amount as at 30 September 2013 was HK\$146,821,000 (31 March 2013: HK\$92,559,000);
- (e) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2013 was HK\$185,596,000 (31 March 2013: HK\$187,756,000);
- (f) charges over the Group's bank deposits in the amount of HK\$104,490,000 at 30 September 2013 (31 March 2013: HK\$49,685,000); and
- (g) (1) charges over shares of certain subsidiaries of the Group; (2) the Group's equity interests in Water Property; and (3) a bank account of the Group.

18. 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	
	2013 (unaudited) HK\$'000	2012 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	25,198	22,245
– Retirement scheme contribution	85	62
	25,283	22,307

- (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.

19. Commitments and guarantee

(i) Capital commitments

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

	As at	
	30 September 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
Contracted, but not provided for		
– Investment properties under construction	74,715	126,089
– Construction in progress	51,892	30,225
– Plant and machinery	15,088	30,883
– Water pipelines	75,006	91,516
	216,701	278,713

(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 renegotiate 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 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
Within one year	24,770	25,728
In the second to fifth years, inclusive	81,474	97,810
After five years	272,046	279,063
	378,290	402,601

As lessor

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

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

	As at	
	30 September 2013 (unaudited) HK\$'000	31 March 2013 (audited) HK\$'000
Within one year	18,315	18,491
In the second to fifth years, inclusive	41,600	41,975
After five years	15,484	9,042
	75,399	69,508

- (iii) On 19 June 2012, the Company signed the letter of support (the "Letter") with Mitsumaru East Kit (Holdings) Limited ("Mitsumaru"). Pursuant to the Letter, the Group has confirmed to provide continuing financial support to Mitsumaru with maximum amount of HK\$100,000,000, so as to meet its financial obligations as they due for the twenty four months period ending 18 June 2014.
- (iv) As at 30 September 2013, the Group had given guarantee to banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$86,909,000 (31 March 2013: HK\$38,998,000). In the opinion of the directors, the financial impact arising from the above guarantee is insignificant and accordingly, they are not accounted for in the financial statements.

20. Contingent liabilities

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

21. Post reporting date event

The Group had the following material event after 30 September 2013:

Subsequent to the reporting date and up to the date of this interim report, the Company repurchased a total of 13,920,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$42,898,000. The highest price paid and the lowest price paid was HK\$3.15 and HK\$2.97 respectively. All the repurchased shares were not cancelled at the date of this interim report.

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 2013 (2012: HK\$0.02 per ordinary share). The interim dividend will be payable on or about Friday, 3 January 2014 to the shareholders whose names appear on the register of member on Tuesday, 17 December 2013.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$1,006.7 million for the six months ended 30 September 2012 to HK\$1,145.0 million for the six months ended 30 September 2013, representing an increase of 13.7%. 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\$903.8 million, represented an increase of 14.0% when compared with the total "Water" segment revenue of HK\$793.1 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\$868.5 million (2012: HK\$769.4 million), representing an increase of 12.9% 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\$355.4 million (2012: HK\$261.7 million), representing an increase of 35.8% as compared with the last corresponding period.

(ii) *Sewage Treatment Business Analysis*

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

For the period under review, the revenue from sewage treatment operation and construction business amounted to HK\$35.2 million (2012: HK\$23.6 million), representing an increase of 49.2% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$12.2 million (2012: HK\$10.6 million), representing an increase of 15.1% 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\$36.0 million (2012: HK\$78.1 million). The total property business segment profit amounted to HK\$41.0 million (2012: HK\$97.2 million), representing a decrease of 57.8% 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\$49.5 million (2012: HK\$72.5 million).

For the six months ended 30 September 2012, 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. 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 developed countries in Europe and United States (US) are still being confronted with the debt crisis and slow recovery of economy. Uncertainty arising from the concerns over the tightening of their monetary policies such as tapering of quantitative easing in US is expected to continue the turbulence in global financial market and market liquidity. Despite these, the supportive policies in relation to the Group's water supply and sewage treatment businesses are being launched continuously in China. Green economy, resources (such as water and energy) conservation and environmental protection are placed among the top rank of the national policies under the 12th Five-Year Plan. According to the communiqué from the third plenum of the party's 18th Central Committee, reform in price mechanism in water area, which stresses the importance of market with less government intervention, would be proceeded. In the recognition of acute water scarcity and increasing demand for reducing water pollution in China, tariff hikes for water supply and sewage treatment operators are expected. As such, the Group still sees a huge room for growth in the market. To respond and capture the market opportunities effectively, the Group will closely analyse the macroeconomic trends and policy changes; identify the critical risks and challenges; and monitor its development and execution of business strategy. By uniting concerted efforts of all staff, optimising management efficiency, strengthening internal control and leveraging on our capital strength, the Group is confident to take a further leap in the industry.

CONVERTIBLE BONDS

As of 31 March 2013, the Company received redemption notice to redeem the convertible bonds of principal amount of HK\$286,700,000 at the total consideration of HK\$319,154,000. Such redemption was completed on 15 April 2013. Immediately after completion of the above redemption, the outstanding principal amount of the convertible bonds is HK\$187,800,000. In addition, during the six months ended 30 September 2013, the Company repurchased convertible bonds with an aggregate principal amount of HK\$21,000,000 at the total consideration of HK\$24,033,000. After completion of the above repurchase, the outstanding principal amount of the convertible bonds is HK\$166,800,000. The Group recognised a loss on repurchase/redemption of the convertible bonds of HK\$1,657,000 during the six months ended 30 September 2013.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2013, the Group has total cash and deposits balances of approximately HK\$1,671.0 million (31 March 2013: HK\$967.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 60.8% (31 March 2013: 55.4%) as at 30 September 2013. The current ratio is 0.88 times (31 March 2013: 1.04 times) as at 30 September 2013. 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 2013, the Group has employed approximately 5,400 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 2013, 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 Issuers ("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	–	22.37%
Ms. Ding Bin	Personal	290,000	–	0.02%
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 2013, 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	-	-	22.37%	-	-
Asset Full Resources Limited (Note (i))	Beneficial	143,578,301	-	-	9.95%	-	-
Atlantis Capital Holdings Limited (Note (ii))	Interest in a controlled corporation	157,246,000	-	-	10.90%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	20.18%	-	-
JP Morgan Chase & Co.	Beneficial/Custodian	173,659,356	-	162,272,000	12.03%	-	11.25%
Norges Bank	Beneficial	115,684,000	-	-	8.02%	-	-
Deutsche Bank Aktiengesellschaft	Beneficial/Investment manager/Person having a security interest in shares/Custodian	80,885,835	10,202,160	368,000	5.61%	0.71%	0.03%
Zesiger Capital Group LLC	Investment manager	72,515,000	-	-	5.03%	-	-

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 2013, 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 Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements. During the six months ended 30 September 2013, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save and except for the deviations from code provisions A.2.1, A.2.7, A.4.2 and A.6.7.

Under code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Duan Chuan Liang serves as the Chairman of the Company. The function of chief executive officer is collectively performed by the executive directors (being Mr. Duan Chuan Liang and Ms. Ding Bin). The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board continues to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has strong confidence in the executive directors and believes that this structure is beneficial to the business prospects of the Company.

Under code provision A.2.7, 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.

Under code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the 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.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors and non-executive directors were unable to attend the Company's annual general meeting held on 6 September 2013 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code throughout the six months ended 30 September 2013 and they all confirmed that they have fully complied with the required standard set out in the Model Code.

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

During the six months ended 30 September 2013 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:

Month/Year	Number of shares repurchased	Highest price	Lowest price	Aggregate consideration
		per share HK\$	per share HK\$	(excluding expenses) HK\$
August 2013	8,042,000	2.91	2.64	22,214,000
September 2013	16,158,000	2.95	2.76	46,150,000
October 2013	13,920,000	3.15	2.97	42,898,000

During the period ended 30 September 2013, the Company repurchased a total of 24,200,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$68,364,000. The highest price paid and the lowest price paid was HK\$2.95 and HK\$2.64 respectively. All the repurchased shares were not cancelled at 30 September 2013 and the date of this interim report.

Subsequent to the reporting date and up to the date of this interim report, the Company repurchased a total of 13,920,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$42,898,000. The highest price paid and the lowest price paid was HK\$3.15 and HK\$2.97 respectively. All the repurchased shares were not cancelled at the date of this interim report.

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 Friday, 13 December 2013 to Tuesday, 17 December 2013 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 2013, 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 Thursday, 12 December 2013.

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 2013 with the directors.

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

Hong Kong, 26 November 2013

As at the date of this report, the Board comprises two executive Directors, being Mr. Duan Chuan Liang and Ms. Ding Bin, four non-executive Directors, being Mr. Chen Guo Ru, 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.