

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



中國水務集團有限公司*

China Water Affairs Group Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 855)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014**

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 2014, together with the comparative figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2014	2013
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	1,355,530	1,144,994
Cost of sales		(718,769)	(614,453)
Gross profit		636,761	530,541
Other income	4	106,345	71,557
Selling and distribution costs		(46,575)	(48,786)
Administrative expenses		(206,192)	(191,835)
Fair value gain on investment properties		143,497	49,521
Change in fair value of derivative financial instruments		(11,556)	(4,288)
Gain/(Loss) on repurchase/redemption of convertible bonds		116	(1,657)

* For identification purpose only

		Six months ended	
		30 September	
		2014	2013
	<i>Notes</i>	(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Profit from operation	5	622,396	405,053
Finance costs	6	(39,735)	(53,557)
Share of results of associates		(22,607)	26,915
Profit before income tax		560,054	378,411
Income tax expense	7	(185,472)	(100,692)
Profit for the period		<u>374,582</u>	<u>277,719</u>
Profit for the period attributable to:			
Owners of the Company		236,479	156,711
Non-controlling interests		138,103	121,008
		<u>374,582</u>	<u>277,719</u>
Earnings per share for profit attributable to owners of the Company during the period	8	HK cents	HK cents
Basic		<u>16.88</u>	<u>10.88</u>
Diluted		<u>16.88</u>	<u>10.88</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2014	2013
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	374,582	277,719
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
– Change in fair value of available-for-sale financial assets	1,211	2,156
– Currency translation	–	55,477
– Share of other comprehensive income of associates	391	15,164
	<hr/>	<hr/>
Other comprehensive income for the period, net of tax	1,602	72,797
	<hr/>	<hr/>
Total comprehensive income for the period	376,184	350,516
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:		
Owners of the Company	238,081	207,268
Non-controlling interests	138,103	143,248
	<hr/>	<hr/>
	376,184	350,516
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2014 (unaudited) <i>HK\$'000</i>	31 March 2014 (audited) <i>HK\$'000</i>
<i>Notes</i>			
ASSETS AND LIABILITIES			
Non-current assets			
	Property, plant and equipment	5,714,675	5,425,110
	Prepaid land lease payments	419,256	549,559
	Investment properties	730,867	485,515
	Interests in associates	1,295,876	1,341,151
	Available-for-sale financial assets	165,027	163,816
	Goodwill	242,052	242,052
	Other intangible assets	177,355	181,999
	Deposits and prepayments	323,193	188,618
		9,068,301	8,577,820
Current assets			
	Properties under development	224,290	596,650
	Properties held for sale	498,625	37,921
	Inventories	266,423	248,569
	Trade and bills receivables	664,449	577,610
	Amounts due from grantors for contract work	312,380	285,557
	Financial assets at fair value through profit or loss	1,352	1,303
	Due from non-controlling equity holders of subsidiaries	439,136	348,292
	Due from associates	255,711	252,298
	Prepayments, deposits and other receivables	815,094	734,481
	Derivative financial assets	68,925	77,056
	Pledged deposits	153,901	179,200
	Deposits and cash	1,256,546	1,590,125
		4,956,832	4,929,062

		As at	
		30 September 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
	Notes		
Current liabilities			
Trade and bills payables	11	496,804	529,023
Accrued liabilities, deposits received and other payables		1,751,996	1,521,007
Due to non-controlling equity holders of subsidiaries		191,269	210,236
Due to associates		89,932	67,317
Borrowings		1,304,391	1,299,281
Convertible bonds		161,690	–
Provision for tax		372,049	339,840
Derivative financial liabilities		8,142	4,976
		<u>4,376,273</u>	<u>3,971,680</u>
Net current assets		<u>580,559</u>	<u>957,382</u>
Total assets less current liabilities		<u>9,648,860</u>	<u>9,535,202</u>
Non-current liabilities			
Borrowings		3,283,128	3,360,045
Due to non-controlling equity holders of subsidiaries		13,154	13,154
Convertible bonds		–	163,461
Deposits received		39,544	38,911
Deferred government grants		84,771	85,321
Deferred tax liabilities		230,002	178,182
		<u>3,650,599</u>	<u>3,839,074</u>
Net assets		<u><u>5,998,261</u></u>	<u><u>5,696,128</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		13,997	14,049
Proposed dividend		41,992	42,147
Reserves		3,657,425	3,474,235
		<u>3,713,414</u>	<u>3,530,431</u>
Non-controlling interests		<u>2,284,847</u>	<u>2,165,697</u>
Total equity		<u><u>5,998,261</u></u>	<u><u>5,696,128</u></u>

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 2014 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 2014.

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:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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) “Concrete related products and services” segment involves production and sales of ready-mixed concrete and related services.

Information about other business activities and operating segments that are not reportable are combined and disclosed in “All other segments”. “All other segments” includes 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, finance costs, share of results of associates, corporate income, corporate expense, income tax expense and gain/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 2014

	City water supply operation and construction (unaudited) <i>HK\$'000</i>	Sewage treatment operation and construction (unaudited) <i>HK\$'000</i>	Property development and investment (unaudited) <i>HK\$'000</i>	Concrete related products and services (unaudited) <i>HK\$'000</i>	All other segments (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
Revenue						
From external customers	997,566	81,651	71,013	172,189	33,111	1,355,530
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>997,566</u>	<u>81,651</u>	<u>71,013</u>	<u>172,189</u>	<u>33,111</u>	<u>1,355,530</u>
Segment profit	<u>402,994</u>	<u>27,892</u>	<u>162,269</u>	<u>34,779</u>	<u>12,533</u>	<u>640,467</u>
Unallocated corporate income						51,347
Unallocated corporate expense						(57,978)
Change in fair value of derivative financial instruments						(11,556)
Gain on repurchase of convertible bonds						116
Finance costs						(39,735)
Share of results of associates	7,948	-	(29,108)	-	(1,447)	(22,607)
Profit before income tax						560,054
Income tax expense						(185,472)
Profit for the period						<u>374,582</u>
Total segment assets	<u>7,175,172</u>	<u>514,643</u>	<u>1,772,437</u>	<u>387,792</u>	<u>772,918</u>	<u>10,622,962</u>

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	Concrete related products and services (Restated) (unaudited) HK\$'000	All other segments (Restated) (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
From external customers	868,544	35,240	36,040	182,220	22,950	1,144,994
From inter-segment	-	-	-	-	-	-
Segment revenue	<u>868,544</u>	<u>35,240</u>	<u>36,040</u>	<u>182,220</u>	<u>22,950</u>	<u>1,144,994</u>
Segment profit/(loss)	<u>355,391</u>	<u>12,177</u>	<u>40,992</u>	<u>22,268</u>	<u>(2,038)</u>	428,790
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>314,492</u>	<u>579,646</u>	<u>10,565,949</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.

"Concrete related products and services" segment has been separately disclosed in this period. Certain comparative figures of segment information were therefore restated.

4. OTHER INCOME

	Consolidated	
	Six months ended	
	30 September	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest income	48,732	23,254
Dividend income from financial assets	2,609	2,633
Government grants and subsidies	40,142	30,772
Miscellaneous income	14,862	14,898
	<hr/>	<hr/>
Total	106,345	71,557

5. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

	Consolidated	
	Six months ended	
	30 September	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Depreciation	131,533	123,929
Amortisation of prepaid land lease payments	7,985	9,304
Amortisation of other intangible assets	4,641	4,549
	<hr/>	<hr/>

6. FINANCE COSTS

	Consolidated	
	Six months ended	
	30 September	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	97,645	89,387
Interest on other borrowings	9,951	11,019
Interest on convertible bonds	6,155	7,482
	<hr/>	<hr/>
Total borrowing costs	113,751	107,888
Less: interest capitalised included in property, plant and equipment and properties under development	(74,016)	(54,331)
	<hr/>	<hr/>
	39,735	53,557

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 (2013: 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	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current		
– PRC	133,652	78,490
Deferred		
– tax charge for the period	51,820	22,202
Total tax charge for the period	185,472	100,692

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\$236,479,000 (2013: HK\$156,711,000) and on the weighted average of 1,401,073,393 (2013: 1,440,240,785) ordinary shares in issue during the period.

Diluted earnings per share for the financial period ended 30 September 2014 and 2013 are the same as the basic earnings per share because the impact of the potential dilutive ordinary shares outstanding is anti-dilutive.

9. DIVIDENDS

(a) Dividends attributable to the interim period

	Consolidated Six months ended 30 September	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Interim dividend		
– HK\$0.03 (2013: HK\$0.02) per ordinary share	41,992	28,861

The interim dividend proposed after the reporting date for the financial period ended 30 September 2014 and 2013 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 2014 and 2013 respectively.

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

	2014 HK\$'000	2013 HK\$'000
Final dividend in respect of the previous financial year		
of HK\$0.03 (2013: HK\$0.03) per ordinary share	–	43,291
Adjustment to the final dividend*	–	(379)
	–	42,912

* 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. 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 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
0 to 90 days	284,587	253,967
91 to 180 days	90,700	73,189
Over 180 days	289,162	250,454
	664,449	577,610

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.

11. 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 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
0 to 90 days	243,231	229,682
91 to 180 days	52,806	94,844
Over 180 days	200,767	204,497
	496,804	529,023

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

12. POST REPORTING DATE EVENTS

The Group had the following material events after 30 September 2014:

- (a) On 3 October 2014, the Company granted 134,500,000 share options (the "Options") to certain eligible participants of the Company (the "Grantees") to subscribe for a total of 134,500,000 ordinary shares of HK\$0.01 each (each a "Share") in the share capital of the Company under the Company's share option scheme adopted on 7 September 2012. In respect of the 70,000,000 Options granted to Mr. Duan Chuan Liang, the executive director of the Company, the exercise price is HK\$3.60 per Share. In respect of all other Options granted, the exercise price is HK\$3.50 per Share. In respect of the Options granted to each Grantee, 50% of the Options shall become exercisable on or after the first anniversary of the date of grant. The remaining Options shall become exercisable on or after the second anniversary of the date of grant. The validity period of the Options is from 3 October 2014 to 3 October 2017.

- (b) On 17 November 2014, Sharp Profit Investments Limited and Good Outlook Investments Limited (being wholly-owned subsidiaries of the Company, together the “Vendors”), China Water Property Group Limited (“Water Property”) and GF Securities (Hong Kong) Brokerage Limited (the “Placing Agent”) entered into the placing and subscription agreement, pursuant to which the Vendors have conditionally agreed to place, through the Placing Agent on a best effort basis, up to 185,872,000 sale shares of Water Property (“Sale Shares”) to not fewer than six placees who and whose ultimate beneficial owners will be independent third parties at a placing price of HK\$0.774 per Sale Share during the placing period and the subscription of subscription shares of Water Property (the number of which shall be equivalent to the actual number of Sale Shares placed by the Placing Agent under the placing) by the Vendors at the subscription price of HK\$0.774 per subscription share of Water Property. After completion of the above placing and subscription, the Group’s shareholding in Water Property will be diluted from 46.65% to 42.41%.
- (c) Subsequent to the reporting date and up to the date of this announcement, the convertible bonds of the Company with principal amount of HK\$94,300,000 were converted into 32,743,049 ordinary shares of the Company, at the conversion price of HK\$2.88.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.03 per ordinary share for the six months ended 30 September 2014 (2013: HK\$0.02 per ordinary share). The interim dividend is expected to be paid on or about Friday, 30 January 2015 to the shareholders whose names appear on the register of members on Thursday, 18 December 2014.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK\$1,145.0 million for the six months ended 30 September 2013 to HK\$1,355.5 million for the six months ended 30 September 2014, representing an increase of 18.4%. The Group maintained a robust growth in its "Water" segment. For the period under review, the total revenue attributable to the "Water" segment amounted to HK\$1,079.2 million, represented an increase of 19.41% when compared with the total "Water" segment revenue of HK\$903.8 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, Hebei, Hainan, Jiangsu, Hubei, Jiangxi, Guangdong, Chongqing and Shanxi.

For the period under review, the revenue from city water supply operation and construction amounted to HK\$997.6 million (2013: HK\$868.5 million), representing an increase of 14.9% 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\$403.0 million (2013: HK\$355.4 million), representing an increase of 13.4% 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\$81.7 million (2013: HK\$35.2 million), representing a significant increase of 132.1% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$27.9 million (2013: HK\$12.2 million), representing a significant increase of 128.7% as compared with the last corresponding period.

(iii) Property Business Analysis

The Group held various property development and investment projects which are mainly located in Beijing, Chongqing, Jiangxi, Hunan and Hubei provinces of China.

For the period under review, the revenue from the property business segment amounted to HK\$71.0 million (2013: HK\$36.0 million). The total property business segment profit amounted to HK\$162.3 million (2013: HK\$41.0 million), representing a significant increase of 295.9% as compared with the last corresponding period, which was mainly due to the sales of a property project in Jiangxi province and the fair value gain on investment properties amounted to HK\$143.5 million (2013: HK\$49.5 million).

(iv) Concrete Business Analysis

Concrete projects of the Group are mainly located in Jiangxi and Hunan provinces of China.

For the period under review, the revenue from concrete business segment amounted to HK\$172.2 million (2013: HK\$182.2 million). The total concrete business segment profit amounted to HK\$34.8 million (2013: HK\$22.3 million), representing a significant increase of 56.1% as compared with the last corresponding period.

For the period under review, the decrease in the Group's share of results of associates was also attributable to the decrease in the contribution by China Water Property Group Limited ("Water Property"), whose ordinary shares are listed on the mainboard of The Stock Exchange of Hong Kong Limited (stock code: 2349).

PROSPECTS

China is a country with scarce water resources. With per capita share of water resources at only one fourth of the global average level, the scarcity of water resources has already become a prominent issue constraining the sustainable development of the country's economy and society, and as such, China is in a desperate urge for scientific methods of water utilisation and water conservation. Under the increasingly grim situation of water crisis as demonstrated in water pollution and water shortages, the state has launched a series of policies to strengthen the practice of the most stringent water resources management, promote water price reform and improve water pricing structure. Earlier this year, the National Development and Reform Commission and the Ministry of Housing and Urban Construction jointly issued the document "Guidance on the Expedited Establishment of an Optimal Water Usage Mechanism with Progressive Water Tariffs for Urban Residents", which has set the stage for the full implementation of progressive water tariffs. The guidance has made it clear that, in principle, progressive water tariffs must be implemented fully in cities with municipal governments by the end of 2015. Progressive water tariffs' scheme is one of the most effective ways to encourage the efficient use of water. The awareness of water conservation is promoted

among the residents and across the whole society through the market mechanism of price leverage. While increase in water price can reflect the total cost of water supply and the value of water resources, fairness in water usage is promoted at the same time through the design of a tiered structure, in which “higher rates are charged to higher tier of water usage”. Also, on 18 June 2014, the Ministry of Finance and State Administration of Taxation jointly issued a notice which asserted that effective 1 July this year, the 6% value-added tax on water operators is reduced by half and adjusted to 3%. Undoubtedly, these policies are beneficial to the water supply companies in terms of water tariff increase and improvement of operating profitability.

At an earlier time, the Chinese government has provided positive encouragement and support on the effective utilisation of social capital and the improvement of operating efficiencies in areas such as water supply industry. On 24 September, the Ministry of Finance issued the “Notice in Relation to the Issues Relevant to the Promotion of a Cooperative Model Between the Government and Social Capitals”, which is the first official document since the launch of the Public-Private Partnership (PPP) model late last year by the Ministry of Finance. On 24 October 2014, Premier Li Keqiang who chaired the State Council Executive Meeting, also repeatedly emphasised his support and encouragement on the participation by social capital in public utility investments including water supplying. The municipal infrastructure can be managed under the operation of social capital. Application of the PPP model will lead to a higher level of standardisation in market operation. Through the high-efficiency of social capital investments, the hard-pressed financial pressure of public utilities on the local governments is relieved, achieving a win-win situation with high social efficiency as well as investment returns.

The PPP cooperative model is also one of the main themes introduced in the just concluded APEC meeting. The “2014 APEC Finance Ministers’ Joint Statement” and the “PPP Project Implementation Roadmap for the Successful Development of Infrastructure in the APEC Region” have clearly defined the public-private partnership (PPP) project roadmap, which is established and concluded based on PPP projects cases in areas including water supply.

It can be foreseen that, under the encouragement and support by the country’s macro policies, water supply and the water industry will be greeted by an era of rapid growth.

CONVERTIBLE BONDS

During the six months ended 30 September 2014, the Company repurchased convertible bonds with an aggregate principal amount of HK\$5,000,000 at the total consideration of HK\$5,960,000. After completion of the above repurchase and as at 30 September 2014, the outstanding principal amount of the convertible bonds is HK\$156,800,000. The Group recognised a gain on repurchase/redemption of the convertible bonds of HK\$116,000 during the six months ended 30 September 2014.

Subsequent to the reporting date and up to the date of this announcement, the convertible bonds of the Company with principal amount of HK\$94,300,000 were converted into 32,743,049 ordinary shares of the Company, at the conversion price of HK\$2.88.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2014, the Group has total cash and deposits balances of approximately HK\$1,410.4 million (31 March 2014: HK\$1,769.3 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 57.2% (31 March 2014: 57.8%) as at 30 September 2014. The current ratio is 1.13 times (31 March 2014: 1.24 times) as at 30 September 2014. 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 2014, the Group has employed approximately 6,300 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.

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 2014, 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. 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 5 September 2014 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 2014 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 2014, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration (excluding expenses) <i>HK\$</i>
May 2014	5,192,000	2.67	2.37	13,051,000

During the period ended 30 September 2014, the Company repurchased a total of 5,192,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$13,051,000. The highest price paid and the lowest price paid was HK\$2.67 and HK\$2.37 respectively. All the repurchased shares were cancelled in July 2014.

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 Tuesday, 16 December 2014 to Thursday, 18 December 2014 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 2014, 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 15 December 2014.

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 2014 with the directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company and the Stock Exchange. The interim report will be despatched to the shareholders of the Company and made available on the same websites in due course.

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

Beijing, the PRC, 28 November 2014

As at the date of this announcement, the Board comprises three executive Directors, being Mr. Duan Chuan Liang, Ms. Ding Bin and Ms. Liu Yu Jie, 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.