



Interim Report 2010/11



中國水務集團有限公司*
China Water Affairs Group Limited
Stock code : 855

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)

Mr. Li Ji Sheng

Non-executive

Mr. Zhao Hai Hu

Mr. Chen Guo Ru

Mr. Zhou Wen Zhi

Mr. Wu Jiesi

Independent Non-executive

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Chau Kam Wing

Mr. Ong King Keung

AUDIT COMMITTEE

Mr. Chau Kam Wing

(Chairman of committee)

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Ong King Keung

REMUNERATION COMMITTEE

Mr. Chau Kam Wing

(Chairman of committee)

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Ong King Keung

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East

Wanchai, Hong Kong

LEGAL ADVISERS

As to Bermuda law

Conyers Dill & Pearman

AUDITORS

Grant Thornton

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

Agricultural Development Bank of China

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

China Water Affairs Group Limited

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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 2010, together with the comparative figures for the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
	<i>Notes</i>	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Revenue	3	627,403	670,556
Cost of sales		(337,788)	(418,641)
Gross profit		289,615	251,915
Other income	4	47,740	46,767
Selling and distribution costs		(25,063)	(20,211)
Administrative expenses		(133,361)	(88,903)
Gain on disposal of assets classified as held for sale	13	201,189	–
Fair value gain on financial assets at fair value through profit or loss		–	135,207
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)		68,284	15,580
Loss on redemption of convertible bonds	14	(16,460)	–
Profit from operation	5	431,944	340,355
Finance costs	6	(63,660)	(39,931)
Share of results of associates		3,558	5,278
Share of results of a jointly-controlled entity		–	730
Profit before income tax		371,842	306,432
Income tax expense	7	(35,925)	(35,284)
Profit for the period		335,917	271,148

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CONDENSED CONSOLIDATED INCOME STATEMENT *(Continued)*

	Notes	Six months ended 30 September	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Attributable to:			
Owners of the Company		271,240	226,073
Minority interests		64,677	45,075
Profit for the period		335,917	271,148
Earnings per share attributable to owners of the Company during the period			
	8	HK cents	HK cents
Basic		20.30	17.48
Diluted		18.04	16.82

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Profit for the period	335,917	271,148
Other comprehensive income:		
Change in fair value of available-for-sale financial assets	(137,512)	–
Other comprehensive income for the period	(137,512)	–
Total comprehensive income for the period	198,405	271,148
Total comprehensive income attributable to:		
Owners of the Company	133,728	226,073
Minority interests	64,677	45,075
	198,405	271,148

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September 2010 (unaudited) HK\$'000	31 March 2010 (audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		3,153,344	3,063,979
Prepaid land lease payments		440,527	429,164
Investment properties		718,409	718,409
Interests in associates		91,707	88,149
Available-for-sale financial assets	10(a)	490,147	455,512
Goodwill		166,492	175,343
Other intangible assets		173,576	176,109
Deposits and prepayments		174,995	191,220
		5,409,197	5,297,885
Current assets			
Properties under development		226,302	166,216
Properties held for sale		1,511	1,511
Inventories		77,467	55,987
Trade receivables	11	604,943	539,000
Amounts due from grantors for contract work		90,827	94,588
Financial assets at fair value through profit or loss	10(b)	52,537	53,841
Derivative financial instruments	10(a)	49,708	142,897
Due from minority equity holders of subsidiaries		126,208	131,566
Prepayments, deposits and other receivables		517,690	233,311
Pledged deposits		78,284	83,111
Cash and cash equivalents		806,404	522,678
		2,631,881	2,024,706
Assets classified as held for sale	13	84,158	453,519
		2,716,039	2,478,225

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at	
	Notes	30 September 2010 (unaudited) HK\$'000	31 March 2010 (audited) HK\$'000
Current liabilities			
Trade payables	12	343,510	326,848
Accrued liabilities, deposits received and other payables		739,122	738,173
Borrowings		532,568	636,815
Due to minority equity holders of subsidiaries		90,616	118,175
Provision for tax		86,875	85,520
Warrants		157	2,754
Derivative financial instruments	14	32,540	252
Convertible bonds	14	-	257,252
		1,825,388	2,165,789
Net current assets		890,651	312,436
Total assets less current liabilities		6,299,848	5,610,321
Non-current liabilities			
Borrowings		1,459,651	1,535,960
Deferred government grants		50,302	51,446
Convertible bonds	14	552,798	-
Deferred tax liabilities		196,137	196,137
		2,258,888	1,783,543
Net assets		4,040,960	3,826,778
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	13,542	13,277
Proposed dividend		27,083	39,980
Reserves		2,627,427	2,496,397
		2,668,052	2,549,654
Minority interests		1,372,908	1,277,124
Total equity		4,040,960	3,826,778

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Net cash inflow from operating activities	42,105	62,183
Net cash inflow/(outflow) from investing activities	104,700	(379,587)
Net cash inflow from financing activities	133,609	309,945
Increase/(decrease) in cash and cash equivalents	280,414	(7,459)
Cash and cash equivalents at beginning of period	526,156	546,067
Effect of foreign exchange rates, net	(166)	–
Cash and cash equivalents at end of period	806,404	538,608
Analysis of balances of cash and cash equivalents		
Bank and cash balances	806,404	538,608

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital (unaudited)	Proposed dividend (unaudited)	Share premium account (unaudited)	Capital redemption reserve (unaudited)	Contributed surplus (unaudited)	Exchange fluctuation reserve (unaudited)	Share option reserve (unaudited)	Other reserves (unaudited)	Available-for-sale assets revaluation reserve (unaudited)	Statutory reserves (unaudited)	Retained earnings (unaudited)	Total (unaudited)	Minority interests (unaudited)	Total equity (unaudited)
At 1 April 2010	13,277	39,980	1,405	341	1,315,149	149,201	23,009	(17,463)	221,433	50,789	752,533	2,549,654	1,277,124	3,826,778
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(137,512)	-	271,240	133,728	64,677	198,405
Share options exercised	265	-	34,149	-	-	-	(7,087)	-	-	-	-	27,327	-	27,327
Final dividend paid	-	(39,980)	-	-	(645)	-	-	-	-	-	-	(40,625)	-	(40,625)
Interim dividend	-	27,083	-	-	(27,083)	-	-	-	-	-	-	-	-	-
Arising from capital contribution in subsidiaries	-	-	-	-	-	(166)	-	-	-	-	-	(166)	-	(166)
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	(1,866)	-	-	-	(1,866)	(12,509)	(14,375)
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	43,796	43,796
Dividend paid to minority interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(180)	(180)
Transactions with owners	265	(12,897)	34,149	-	(27,728)	(166)	(7,087)	(1,866)	-	-	-	(15,330)	31,107	15,777
Transfer to statutory reserves	-	-	-	-	-	-	-	-	-	870	(870)	-	-	-
Balance at 30 September 2010	13,542	27,083	35,554	341	1,287,421	149,035	15,922	(19,329)	83,921	51,659	1,022,903	2,668,052	1,372,908	4,040,960

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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 option reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available-for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000	Minority interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
At 1 April 2009	12,069	36,206	1,135,595	341	34,519	137,862	81,354	383	-	38,280	399,551	1,876,160	811,677	2,687,837
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	226,073	226,073	45,075	271,148
Placing and subscription of new shares	1,200	-	226,800	-	-	-	-	-	-	-	-	228,000	-	228,000
Share issues expenses	-	-	(11,635)	-	-	-	-	-	-	-	-	(11,635)	-	(11,635)
Final dividend paid	-	(36,206)	-	-	(3,600)	-	-	-	-	-	-	(39,806)	-	(39,806)
Interim dividend	-	26,537	-	-	(26,537)	-	-	-	-	-	-	-	-	-
Share premium reduction	-	-	(1,350,760)	-	1,350,760	-	-	-	-	-	-	-	-	-
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	31,312	31,312
Transactions with owners	1,200	(9,669)	(1,135,595)	-	1,320,623	-	-	-	-	-	-	176,559	31,312	207,871
Balance at 30 September 2009	13,269	26,537	-	341	1,355,142	137,862	81,354	383	-	38,280	625,624	2,278,792	888,064	3,166,856

Notes:

1. Basis of preparation

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

2. Principal accounting policies

The basis of preparation and accounting policies adopted in preparing these interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 March 2010 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 2010.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemptions for First-time-Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

The application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no material effect on the interim condensed consolidated financial statements of the Group. Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

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

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 in future periods. So far, it has included that the adoption of the new and revised standards, amendments or interpretations is unlikely to have material impact on the Group's results and financial position.

3. Revenue and segment information

The Group has identified the following reportable segments:

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

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except for equity-settled share option expenses, gain on disposal of assets classified as held for sale, fair value gain/loss on financial assets at fair value through profit or loss, fair value change on derivative financial instruments, finance costs, share of results of associates and jointly controlled entity, corporate income, corporate expenses, excess over the cost of business combination recognised in profit and loss, reversal of impairment loss, impairment loss on available-for-sale financial assets, income tax expense and gain/loss on repurchase/redemption of convertible bonds. Segment assets consist primarily of intangible assets, goodwill, property, plant and equipment, prepaid land lease payments, inventories and trade receivables and mainly exclude corporate assets, available-for-sale financial assets, financial assets at fair value through profit or loss, and interests in associates and a jointly controlled entity.

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

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	City water supply operation and construction (unaudited) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	Other infrastructure construction (unaudited) HK\$'000	All other (unaudited) HK\$'000	Inter-segment elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue							
From external customers	353,213	16,095	33,307	208,513	59,428	-	670,556
From inter-segment	2,594	-	-	-	30,589	(33,183)	-
Reportable segment revenue	<u>355,807</u>	<u>16,095</u>	<u>33,307</u>	<u>208,513</u>	<u>90,017</u>	<u>(33,183)</u>	<u>670,556</u>
Reportable segment profit	<u>154,784</u>	<u>6,208</u>	<u>380</u>	<u>39,276</u>	<u>8,302</u>	<u>-</u>	<u>208,950</u>
Unallocated corporate income							1,973
Unallocated corporate expenses							(21,355)
Fair value gain on financial assets at fair value through profit or loss							135,207
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)							15,580
Finance costs							(39,931)
Share of results of associates							5,278
Share of result of a jointly-controlled entity							<u>730</u>
Profit before income tax							306,432
Income tax expense							<u>(35,284)</u>
Profit for the period							<u>271,148</u>
Total segment assets	<u>2,695,222</u>	<u>155,089</u>	<u>821,776</u>	<u>554,545</u>	<u>140,352</u>	<u>-</u>	<u>4,366,984</u>

For the period ended 30 September 2009, 31% of the Group's total revenue was attributable to other infrastructure construction services revenue from one customer of HK\$208,513,000.

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.

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4. Other income

	Consolidated Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Other income:		
Interest income	1,607	1,133
Dividend income from financial assets	9,347	1,562
Government grants and subsidies	27,610	40,440
Miscellaneous income	9,176	3,632
Total	47,740	46,767

5. Profit from operation

Profit from operation is arrived at after charging:

	Consolidated Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Depreciation	68,171	45,398
Amortisation of prepaid land lease payments	3,356	2,726
Amortisation of other intangible assets	3,813	4,128

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6. Finance costs

	Consolidated Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Interest on bank loans	33,997	21,551
Interest on other borrowings	8,746	10,213
Interest on convertible bonds	26,226	10,834
Convertible bonds issuance expenses charged to income statement	1,289	–
Total borrowing costs	70,258	42,598
Less: interest capitalised included in property, plant and equipment	(6,598)	(2,667)
	63,660	39,931

7. Income tax expense

Taxation for other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions. Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2009: Nil).

	Consolidated Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Current		
– PRC	35,925	33,534
Deferred		
– tax charge for the period	–	1,750
Total tax charge for the period	35,925	35,284

8. Earning per share 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\$271,240,000 (2009: HK\$226,073,000) and on the weighted average of 1,336,273,868 (2009: 1,293,666,741) ordinary shares in issue during the period.

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

In the calculation of the diluted earnings per share attributable to the owners of the Company for the period ended 30 September 2009, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the period attributable to owners of the Company of HK\$226,073,000 and on the weighted average of 1,344,001,875 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,293,666,741 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 50,335,134.

9. Dividends

(a) *Dividends attributable to the interim period*

	Consolidated Six months ended 30 September	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Interim dividend		
– HK\$0.02 (2009: HK\$0.02) per ordinary share	27,083	26,537

The interim dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the financial period ended 30 September 2010.

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

	2010 HK\$'000	2009 HK\$'000
Final dividend in respect of the previous financial year of HK\$0.03 (2009: HK\$0.03) per ordinary share	40,625	39,806

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10. Other financial assets

(a) *Available-for-sale financial assets*

	As at		
	30 September	31 March	
	2010	2010	
	(unaudited)	(audited)	
	HK\$'000	HK\$'000	
Unlisted debt securities in Hong Kong, at fair value (note (i))*	57,869	106,734	
Unlisted equity securities outside Hong Kong, at cost (note (ii))	67,294	31,225	
Listed equity securities in Hong Kong, at fair value (note (ii))*	364,984	317,553	
	490,147	455,512	

* Available-for-sale financial assets which are stated at fair value are determined by the directors of the Company with reference to quoted market price and valuation performed by RHL Appraisal Limited, an independent firm of professional valuers.

These financial assets are subject to financial risk exposure in terms of price risk.

Note (i):

The Group held the convertible bonds issued by China Water Property Group Limited ("Water Property") with a principal amount of HK\$180,050,000 (the "Water Property Convertible Bonds") 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 at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. On 27 October 2009, the conversion price was adjusted to HK\$0.045. 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.

During the period ended 30 September 2010, a principal amount of HK\$60,000,000 Water Property Convertible Bonds are converted into 1,333,333,333 ordinary shares of Water Property with a par value of HK\$0.01 each at the conversion price of HK\$0.045. After the above conversion, the Group held the convertible bonds issued by Water Property with a principal amount of HK\$81,550,000 as at 30 September 2010.

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 financial assets at fair value through profit or loss.

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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 rate of the debt element at 30 September 2010 is approximately 8.7%. 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 carrying amounts of the debt element and conversion options element of the Water Property Convertible Bonds are as follows:

	Debt element – Unlisted debt securities	Conversion options element – Conversion options embedded in convertible bonds
	HK\$'000	HK\$'000
Net carrying amount at 1 April 2009	56,497	61,984
Disposals	(9,333)	(30,854)
Change in fair value		
– charged to profit or loss (<i>note (i)</i>)	43,871	111,767
– charged to equity	15,699	–
	106,734	142,897
Net carrying amount at 31 March 2010 and at 1 April 2010	106,734	142,897
Disposals	(43,909)	(48,571)
Change in fair value		
– charged to profit or loss	–	(44,618)
– charged to equity	(4,956)	–
	57,869	49,708
Net carrying amount at 30 September 2010	57,869	49,708

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Note (ii):

Particulars of the major investment in equity securities as at 30 September 2010 are as follows:

Name	Place of establishment	Principal activities	Particulars of registered capital	Percentage of interest held
Water Property * (note I)	Cayman Islands	Property development in the PRC as well as packaged food and healthcare products/business	12,237,606,047 shares of HK\$0.01 each	27.11%
上海自來水投資建設有限公司 ("上海自來水") (note I & II)	PRC	Water supply infrastructure	Registered capital of RMB70,000,000	28.57%

* Listed on the Stock Exchange and were pledged to secure the amended and restated term facility agreement as detailed in note 16(ii).

Notes:

- (I) As at 30 September 2010, the investments in 上海自來水 and Water Property are not equity accounted for under HKAS 28 "Investments in Associates". This is because the directors are of the opinion that the Group has no participation in the financial and operating policy-making process as at 30 September 2010.
- (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.
- (III) The above table lists the major investments of the Group which, in the opinion of the directors, principally affected results for the period or formed a substantial portion of the net assets of the Group. To give details of other investments would, in the opinion of the directors, result in particulars of excessive length.

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

	As at	
	30 September 2010 (unaudited) HK\$'000	31 March 2010 (audited) HK\$'000
Listed equity investments, at market value:		
– Hong Kong	380	1,053
– Elsewhere	52,157	52,788
	52,537	53,841

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 receivables

An analysis of the aging of the Group's trade receivables is as follows:

	As at	
	30 September 2010 (unaudited) HK\$'000	31 March 2010 (audited) HK\$'000
Current to 90 days	112,073	138,774
91 to 180 days	40,066	58,592
Over 180 days	452,804	341,634
	604,943	539,000

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

As at the reporting date, the Group had no significant balances of trade receivables that were past due but not impaired. The directors of the Company are of the opinion that no further 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.

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12. Trade payables

An analysis of the aging of the Group's trade payable is as follows:

	30 September 2010 (unaudited) HK\$'000	As at 31 March 2010 (audited) HK\$'000
Current to 90 days	97,166	95,170
91 to 180 days	12,524	30,969
Over 180 days	233,820	200,709
	343,510	326,848

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

13. Assets classified as held for sale

During the year ended 31 March 2010, the directors planned to sell the available-for-sale financial assets, namely equity interest in 江河農村電氣化發展有限公司 ("江河農電") and 17.085% equity interest in 中國水務投資有限公司 ("水務投資"), and have entered into the following agreements subsequent to 31 March 2010. Accordingly, the relevant assets attributable to disposals were presented as "assets classified as held for sale" as at 31 March 2010.

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

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

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

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14. Convertible bonds

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

Liability component

	2012 Convertible Bonds (note a) HK\$'000	2015 Convertible Bonds (note b) HK\$'000
Net carrying amounts at 1 April 2009	235,530	–
Interest expenses	21,722	–
Net carrying amounts at 31 March 2010 and at 1 April 2010	257,252	–
Arising from repurchases/redemption	(262,312)	–
Issue of 2015 Convertible Bonds	–	531,632
Interest expenses	5,060	21,166
Net carrying amounts at 30 September 2010	–	552,798
Derivative component		
– classified as current liabilities		
Net carrying amounts at 1 April 2009	6,339	–
Change in fair value of derivative financial instruments	(6,087)	–
Net carrying amounts at 31 March 2010 and at 1 April 2010	252	–
Issue of 2015 Convertible Bonds	–	55,338
Arising from repurchases/redemption	(252)	–
Change in fair value of derivative financial instruments	–	(22,798)
Net carrying amounts at 30 September 2010	–	32,540

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Notes:

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

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

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

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

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

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

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

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

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

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

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

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

The net proceeds from the issue of convertible bonds will be used for capital expenditure, working capital and general corporate purposes. Further details of which are disclosed in the Company's announcement dated 10 March 2010. The transaction was completed on 15 April 2010.

The Group determined that the above 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 contract is separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element.

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

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

	30 September 2010	15 April 2010
Stock price	HK\$2.80	HK\$3.31
Volatility	19.500%	18.075%
Risk free rate	1.048%	2.018%

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 2010 results in a fair value gain of HK\$22,798,000, which has been included in the "Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)" in the income statement for the period ended 30 September 2010.

Interest expenses are calculated using the effective interest method by apply the effective interest rate of 8.7% to the adjusted liability component.

15. Share capital

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2010 and 31 March 2010	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2009	1,206,872	12,069
Placing and subscription of new shares	120,000	1,200
Share options exercised	800	8
Ordinary shares of HK\$0.01 each at 31 March 2010 and 1 April 2010	1,327,672	13,277
Share options exercised (<i>note (a)</i>)	26,500	265
Ordinary shares of HK\$0.01 each at 30 September 2010	<u>1,354,172</u>	<u>13,542</u>

- (a) During the period ended 30 September 2010, the subscription rights attaching to 25,000,000, 1,200,000 and 300,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$1.02, HK\$1.16 and HK\$1.45 per share respectively, resulting in the issue of 26,500,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$27,327,000 (before expenses). The premium received was credited to the share premium account.

16. Pledge of assets

- (i) The Group's bank and other loans at 30 September 2010 were secured by:
- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
 - (b) guarantees by You Tao and Lin Hua Dong (being senior management of certain subsidiaries), 江西省水利水電開發總公司, 新余市人大常委會 and 韶關市丹霞山旅遊投資經營有限公司;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2010 was HK\$107,857,000 (31 March 2010: HK\$101,026,000);
 - (d) charges over interests in land use rights in which their aggregate carrying amount as at 30 September 2010 was HK\$17,420,000 (31 March 2010: HK\$16,998,000);
 - (e) charges over investment properties in which their aggregate carrying amount as at 30 September 2010 was HK\$229,332,000 (31 March 2010: HK\$229,332,000);
 - (f) charges over properties under development in which their aggregate carrying amount as at 30 September 2010 was HK\$123,552,000 (31 March 2010 : HK\$63,466,000);
 - (g) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2010 was HK\$173,576,000 (31 March 2010: HK\$176,109,000); and
 - (h) charges over the Group's bank balances in the amount of HK\$78,284,000 as at 30 September 2010 (31 March 2010: HK\$83,111,000).
- (ii) On 18 December 2007, the Company entered into a term facility agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH (“DEG”) and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”) for a loan facility of up to US\$36 million (the “Loan Agreement”). On 13 August 2008, the Company and its subsidiary, DEG and FMO entered into amended and restated term facility agreement to amend the Loan Agreement (the “Amended Loan Agreement”). In connection with the Amended Loan Agreement, the Company acted as guarantor and issued to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company at the subscription price of HK\$7 during the subscription period from 18 December 2008 to 18 December 2011 (both days inclusive) up to USD10.8 million (the “Warrants”).

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

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During the year ended 31 March 2010, certain provisions of the Amended Loan Agreement were breached which could cause the DEG and FMO Loan becomes payable on demand. However, on 31 March 2010, the Group has been granted the waiver in respect of granting a period of grace until 1 April 2011 in connection with the breached provisions. In the opinion of the directors of the Company after taking into account the waiver, the Group has an unconditional right to defer settlement of the DEG and FMO Loan until 1 April 2011.

17. Related party transactions

The Group has the following material related party transactions during the interim period:

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

On 18 August 2010, the Company entered into an agreement with Kolon Industries, Inc., Kolon Engineering & Construction Co., Ltd. and Environmental Facilities Management Corporation, to acquire the remaining 49 % issued share capital of China Kolon Water Management Company Limited (the "Kolon Target") at cash consideration of HK\$14,394,000. After completion, the Company will hold the entire interest in the Kolon Target. The acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all the relevant percentages under Rule 14.07 of the Listing Rules is less than 5%, the acquisition is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transaction was completed in September 2010.

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18. Commitments

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

(i) Capital commitments

	As at	
	30 September	31 March
	2010	2010
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Contracted, but not provided for		
– Construction in progress	12,683	20,351
– Plant and machinery	8,418	2,417
– Leasehold improvements	–	195
– Water pipelines	94,408	93,522
	115,509	116,485
Authorised, but not contracted for		
– Water pipelines	51,570	51,570
	167,079	168,055

(ii) Operating lease arrangement

As leasee

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

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

	As at	
	30 September	31 March
	2010	2010
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Within one year	16,099	15,668
In the second to fifth years, inclusive	42,245	45,107
After five years	37,754	42,574
	96,098	103,349

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As lessor

The Group sub-leases certain of its leased properties under operating lease arrangements for terms ranging from one to five years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the Group and the landlords. 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 2010 (unaudited) HK\$'000	31 March 2010 (audited) HK\$'000
Within one year	1,479	1,811
In the second to fifth years, inclusive	1,196	789
	2,675	2,600

- (iii) At the reporting date, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$15,500,000 (31 March 2010: HK\$23,053,000).

19. Contingent liabilities

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

20. Post reporting date events

Save as disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material events after 30 September 2010:

- (i) The Group acquired additional 227,768,000 ordinary shares of Water Property at a consideration of approximately HK\$25.3 million. After the above acquisition, the percentage of equity interest in Water Property held by the Group was increased to 29.0%.
- (ii) The Group successfully bade for 55% of the interest in various assets of Yifeng Tap Water Company, a PRC state owned enterprise at a total consideration of approximately RMB20.3 million. Further details of the above transaction were disclosed in the Company's announcement dated 3 November 2010.

21. Comparative information

Comparative information were restated to conform to current period's presentation as a result of the adoption of the new HKFRSs.

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 2010 (2009: HK\$0.02 per ordinary share). The interim dividend will be payable on or about Monday, 3 January 2011 to the shareholders whose names appear on the register of member on Friday, 24 December 2010.

BUSINESS REVIEW

Despite the decline in the Group's total revenue from 670.6 million for the six months ended 30 September 2009 to 627.4 million for the six months ended 30 September 2010, the Group recorded a robust growth in its "Water" segment. For the period under review, the total revenue attributable to the "Water" segment amounted to RMB542.9 million, which represented approximately 86.5% of the total revenue. For the corresponding period under review, the total revenue attributable to the "Water" segment amounted to RMB369.3 million, which represented approximately 55.1% of the total revenue only. This represented a substantial growth of "Water" segment revenue of 47.0%, which is mainly attributed 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, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing.

For the period under review, the revenue from city water supply operation and construction amounted to HK\$521.1 million (2009: HK\$353.2 million), representing an increase of 47.5% 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\$185.0 million (2009: HK\$154.8 million), representing an increase of 19.5 % as compared with the last corresponding period.

(ii) Sewage Treatment Business Analysis

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

For the period under review, the revenue from sewage treatment operation and construction business amounted to HK\$21.8 million (2009: HK\$16.1 million), representing an increase of 35.4% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK\$9.4 million (2009: HK\$6.2 million), representing an increase of 51.6 % 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 provinces.

For the period under review, the Group did not record any revenue from the property business segment (2009: HK\$33.3 million). The total property business segment profit amounted to HK\$0.5 million (2009: HK\$0.4 million), representing an increase of 25% as compared with the last corresponding period. The Group presold one of its property projects in Jiangxi province and received deposits of approximately HK\$139.9 million. The Group expected that the related revenue and result will be reflected in the second half this year.

(iv) Other Infrastructure Construction Business Analysis

For the period under review, the Group did not record any revenue from the other infrastructure construction business segment (2009: HK\$208.5 million) as the progress of the Group's contracted infrastructure construction project in Jiangxi province was in the final stage in the last financial year. The total other infrastructure construction business segment loss amounted to HK\$1.0 million (2009: profit of HK\$39.3 million).

For the period under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to RMB201.2 million, which represented the aggregate gain on disposal of 35% equity interest in 江河農村電氣化發展有限公司 and 17.085% equity interest in 中國水務投資有限公司. The Group considered that realisation of the above investments at a gain can provide resources to the Group in developing water supply related businesses in China.

FUTURE PROSPECTS

China is a water-stressed country. The water pollution caused by the fast urbanisation in China is compounding the severity of the problem. The Group believes that water industry in China has large growth potential as solving the problems of water shortage and water pollution are critical to the success of sustainable economic growth and social development in China.

The key missions of environmental protection and rural development are further stressed in the 12th Five-Year Plan. The total national investment in sewage treatment is expected to surge, which is beneficial to the Group's sewage treatment business. The Group also believes that the total national investment in water supply is even higher as the development of safe water supply system is taking a toll in the urbanisation and rural development. The Group is well positioned to enjoy the fast growing water industry ahead due to the Group's strategic locations of water supply projects across China, including second to third tier regions. The Group is also taking active step for tariff hike. The Group expects that water tariff will continue to rise as the consumer price index is expected to allow increasing in larger magnitude and water fee represents a smaller proportion of Chinese disposable income than other utilities such as electricity and gas.

The Group will also keep identifying with effort some promising water projects to enlarge its water supply capacity and coverage. The Group's goal of enhancing the shareholders' value remains paramount in the development and execution of the above strategy.

ISSUE OF CONVERTIBLE BONDS

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 net proceeds from the issue of convertible bonds will be used for capital expenditure, working capital and general corporate purposes. Further details of which are disclosed in note 14 to the financial statements and in the Company's announcement dated 10 March 2010. The transaction was completed on 15 April 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2010, the Group has total cash and bank balances of approximately HK\$884.7 million (31 March 2010: HK\$605.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 50.3% (31 March 2010: 50.8%) as at 30 September 2010. The current ratio is 1.49 times (31 March 2010: 1.14 times) as at 30 September 2010. 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 2010, the Group has employed approximately 4,800 staff. Most of them stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2010, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(a) Shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note)	Directly beneficial owned and through controlled corporation	231,100,301	–	17.06%
Mr. Chen Guo Ru	Directly beneficial owned	3,500,000	–	0.26%
Mr. Zhao Hai Hu	Directly beneficial owned	1,900,000	–	0.14%
Mr. Zhou Wen Zhi	Directly beneficial owned	870,000	–	0.07%

Note: These 231,100,301 shares consists of 112,336,301 shares held by Asset Full Resources Limited of which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 118,764,000 shares held by Mr. Duan Chuan Liang personally.

(b) Underlying shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang	Directly beneficial owned	25,000,000	–	1.85%
Mr. Li Ji Sheng	Directly beneficial owned	1,000,000	–	0.07%
Mr. Chen Guo Ru	Directly beneficial owned	500,000	–	0.04%
Mr. Wu Jiesi	Directly beneficial owned	6,500,000	–	0.48%
Mr. Zhao Hai Hu	Directly beneficial owned	1,000,000	–	0.07%
Mr. Zhou Wen Zhi	Directly beneficial owned	500,000	–	0.04%

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

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SHARE OPTION SCHEMES

The following table discloses movements in the Company's share options during the period:

Name or category of participant	Number of share options				At 30 September 2010	Date of grant of share options	Exercise period of share options	Exercise price of share options (HK\$) (note a)
	At 1 April 2010	Granted during the period	Exercised during the period	Lapsed during the period				
Directors								
Mr. Duan Chuan Liang	50,000,000	-	(25,000,000)	-	25,000,000	12 January 2009	Period 3	1.02
Mr. Li Ji Sheng	1,000,000	-	-	-	1,000,000	10 December 2009	Period 4	2.85
Mr. Wu Jiesi	6,000,000	-	-	-	6,000,000	29 March 2006	Period 1	1.45
	500,000	-	-	-	500,000	10 December 2009	Period 4	2.85
	6,500,000	-	-	-	6,500,000			
Mr. Chen Guo Ru	500,000	-	-	-	500,000	10 December 2009	Period 4	2.85
Mr. Zhou Wen Zhi	500,000	-	-	-	500,000	10 December 2009	Period 4	2.85
Mr. Zhao Hai Hu	1,000,000	-	-	-	1,000,000	10 December 2009	Period 4	2.85
Other employees								
In aggregate	1,600,000	-	(1,200,000)	-	400,000	17 March 2006	Period 2	1.16
	900,000	-	(300,000)	-	600,000	29 March 2006	Period 1	1.45
	8,500,000	-	-	-	8,500,000	10 December 2009	Period 4	2.85
	11,000,000	-	(1,500,000)	-	9,500,000			
Suppliers/Advisors								
In aggregate	2,000,000	-	-	-	2,000,000	10 December 2009	Period 4	2.85
	72,500,000	-	(26,500,000)	-	46,000,000			

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Notes:

Period 1	29 March 2006 to 28 March 2011
Period 2	17 March 2006 to 16 March 2011
Period 3	12 January 2009 to 11 January 2012
Period 4	10 December 2009 to 9 December 2011

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

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

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

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" above, at no time during the period ended 30 September 2010 was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company	
		Long position	Short position	Long position	Short position
Asset Full Resources Limited (Note)	Directly beneficial owned	112,336,301	-	8.30%	-
Atlantis Investment Management Limited	Directly beneficial owned	199,576,000	-	14.74%	-
Zesiger Capital Group LLC	Directly beneficial owned	73,036,000	-	5.39%	-
JP Morgan Chase & Co	Directly beneficial owned	133,904,264	-	9.89%	-
Norges Bank	Directly beneficial owned	121,690,000	-	8.99%	-

Note: 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 Duan Chuan Liang, an executive director and chairman of the Company.

Save as disclosed above, as at 30 September 2010, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2010, except for certain deviations as follows:

Code Provision A.4.2

Under this code provision, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of Board should not be subject to retirement by rotation.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for the Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by its directors. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2010.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 December 2010 to Friday, 24 December 2010 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 2010, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 December 2010.

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

The Audit Committee comprises the four independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed accounts for the six months ended 30 September 2010 with the directors.

On behalf of the Board

Duan Chuan Liang

Chairman

Hong Kong, 26 November 2010

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