



中國水務集團有限公司\*

China Water Affairs Group Limited

Stock code : 855

INTERIM REPORT

2014/15



\* For identification purposes only

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive

Mr. Duan Chuan Liang (*Chairman*)  
Ms. Ding Bin  
Ms. Liu Yu Jie (appointed on 10 September 2014)

#### Non-executive

Mr. Zhao Hai Hu  
Mr. Chen Guo Ru  
Mr. Zhou Wen Zhi  
Mr. Makoto Inoue

#### Independent Non-executive

Ms. Huang Shao Yun  
Ms. Liu Dong  
Mr. Chau Kam Wing  
Mr. Ong King Keung

### AUDIT COMMITTEE

Mr. Chau Kam Wing  
(*Chairman of committee*)  
Ms. Huang Shao Yun  
Ms. Liu Dong  
Mr. Ong King Keung

### REMUNERATION COMMITTEE

Mr. Chau Kam Wing  
(*Chairman of committee*)  
Ms. Huang Shao Yun  
Ms. Liu Dong  
Mr. Ong King Keung

### NOMINATION COMMITTEE

Mr. Duan Chuan Liang  
(*Chairman of committee*)  
Mr. Chau Kam Wing  
Ms. Huang Shao Yun  
Ms. Liu Dong

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

### HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### LEGAL ADVISERS

*As to Bermuda law*  
Conyers Dill & Pearman

### AUDITOR

BDO Limited

### PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited  
Bank of China (Hong Kong) Limited  
Agricultural Development Bank of China  
Asian Development Bank

### STOCK CODE

855

### WEBSITE

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

The board of directors (the "Board") of China Water Affairs Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2014, together with the comparative figures for the corresponding period in 2013, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 September</b>	
		<b>2014 (unaudited) HK\$'000</b>	2013 (unaudited) HK\$'000
	<i>Notes</i>		
<b>Revenue</b>	3	<b>1,355,530</b>	1,144,994
Cost of sales		<b>(718,769)</b>	(614,453)
<b>Gross profit</b>		<b>636,761</b>	530,541
Other income	4	<b>106,345</b>	71,557
Selling and distribution costs		<b>(46,575)</b>	(48,786)
Administrative expenses		<b>(206,192)</b>	(191,835)
Fair value gain on investment properties		<b>143,497</b>	49,521
Change in fair value of derivative financial instruments		<b>(11,556)</b>	(4,288)
Gain/(Loss) on repurchase/redemption of convertible bonds	13	<b>116</b>	(1,657)
<b>Profit from operation</b>	5	<b>622,396</b>	405,053
Finance costs	6	<b>(39,735)</b>	(53,557)
Share of results of associates		<b>(22,607)</b>	26,915
<b>Profit before income tax</b>		<b>560,054</b>	378,411
Income tax expense	7	<b>(185,472)</b>	(100,692)
<b>Profit for the period</b>		<b>374,582</b>	277,719

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

		<b>2014</b>	2013
		<b>(unaudited)</b>	(unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
<b>Profit for the period attributable to:</b>			
Owners of the Company		<b>236,479</b>	156,711
Non-controlling interests		<b>138,103</b>	121,008
		<b>374,582</b>	277,719
<b>Earnings per share for profit attributable to owners of the Company during the period</b>			
	8	<b>HK cents</b>	HK cents
Basic		<b>16.88</b>	10.88
Diluted		<b>16.88</b>	10.88

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		As at	
		<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
	Notes		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>5,714,675</b>	5,425,110
Prepaid land lease payments		<b>419,256</b>	549,559
Investment properties		<b>730,867</b>	485,515
Interests in associates		<b>1,295,876</b>	1,341,151
Available-for-sale financial assets	10(a)	<b>165,027</b>	163,816
Goodwill		<b>242,052</b>	242,052
Other intangible assets		<b>177,355</b>	181,999
Deposits and prepayments		<b>323,193</b>	188,618
		<b>9,068,301</b>	8,577,820
<b>Current assets</b>			
Properties under development		<b>224,290</b>	596,650
Properties held for sale		<b>498,625</b>	37,921
Inventories		<b>266,423</b>	248,569
Trade and bills receivables	11	<b>664,449</b>	577,610
Amounts due from grantors for contract work		<b>312,380</b>	285,557
Financial assets at fair value through profit or loss	10(b)	<b>1,352</b>	1,303
Due from non-controlling equity holders of subsidiaries		<b>439,136</b>	348,292
Due from associates		<b>255,711</b>	252,298
Prepayments, deposits and other receivables		<b>815,094</b>	734,481
Derivative financial assets	10(a)	<b>68,925</b>	77,056
Pledged deposits		<b>153,901</b>	179,200
Deposits and cash		<b>1,256,546</b>	1,590,125
		<b>4,956,832</b>	4,929,062

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

		As at	
		30 September 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
	Notes		
<b>Current liabilities</b>			
Trade and bills payables	12	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	13	161,690	–
Provision for tax		372,049	339,840
Derivative financial liabilities	13	8,142	4,976
		<b>4,376,273</b>	<b>3,971,680</b>
<b>Net current assets</b>		<b>580,559</b>	<b>957,382</b>
<b>Total assets less current liabilities</b>		<b>9,648,860</b>	<b>9,535,202</b>
<b>Non-current liabilities</b>			
Borrowings		3,283,128	3,360,045
Due to non-controlling equity holders of subsidiaries		13,154	13,154
Convertible bonds	13	–	163,461
Deposits received		39,544	38,911
Deferred government grants		84,771	85,321
Deferred tax liabilities		230,002	178,182
		<b>3,650,599</b>	<b>3,839,074</b>
<b>Net assets</b>		<b>5,998,261</b>	<b>5,696,128</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	14	13,997	14,049
Proposed dividend		41,992	42,147
Reserves		3,657,425	3,474,235
		<b>3,713,414</b>	<b>3,530,431</b>
<b>Non-controlling interests</b>		<b>2,284,847</b>	<b>2,165,697</b>
<b>Total equity</b>		<b>5,998,261</b>	<b>5,696,128</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**Six months ended  
30 September**

	<b>2014</b> <b>(unaudited)</b> <b>HK\$'000</b>	2013 (unaudited) HK\$'000
Net cash inflow from operating activities	<b>327,675</b>	11,878
Net cash outflow from investing activities	<b>(533,898)</b>	(680,073)
Net cash (outflow)/inflow from financing activities	<b>(127,356)</b>	1,324,606
(Decrease)/Increase in cash and cash equivalents	<b>(333,579)</b>	656,411
Cash and cash equivalents at beginning of period	<b>1,590,125</b>	918,146
Effect of foreign exchange rates, net	-	(8,022)
Cash and cash equivalents at end of period	<b><u>1,256,546</u></b>	<u>1,566,535</u>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	<b><u>1,256,546</u></b>	<u>1,566,535</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the Company

	Share capital (unaudited) HK\$'000	Proposed dividend (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share options reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available-for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000	Non-controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
<b>Balance at 1 April 2014</b>	<b>14,049</b>	<b>42,147</b>	<b>306,427</b>	<b>2,507</b>	<b>1,025,836</b>	<b>388,349</b>	<b>14,416</b>	<b>(379,081)</b>	<b>10,300</b>	<b>195,137</b>	<b>1,910,344</b>	<b>3,530,431</b>	<b>2,165,697</b>	<b>5,696,128</b>
Share repurchase (note 14)	(52)	-	(12,989)	-	-	-	-	-	-	-	(13,051)	-	(13,051)	
Share repurchase expenses	-	-	(55)	-	-	-	-	-	-	-	(55)	-	(55)	
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	-	-	-	-	(2,919)	(2,919)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	25,104	25,104
Final dividend approved	-	(42,147)	-	-	155	-	-	-	-	-	(41,992)	-	-	(41,992)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(41,138)	(41,138)
<b>Transactions with owners</b>	<b>(52)</b>	<b>(42,147)</b>	<b>(13,054)</b>	<b>-</b>	<b>155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(55,098)</b>	<b>(18,953)</b>	<b>(74,051)</b>
<b>Proposed interim dividend</b>	<b>-</b>	<b>41,992</b>	<b>-</b>	<b>-</b>	<b>(41,992)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transfer to capital redemption reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Profit for the period	-	-	-	-	-	-	-	-	-	-	236,479	236,479	138,103	374,582
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	1,211	-	-	1,211	-	1,211
- Share of other comprehensive income of associates	-	-	-	-	-	391	-	-	-	-	-	391	-	391
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>391</b>	<b>-</b>	<b>-</b>	<b>1,211</b>	<b>-</b>	<b>236,479</b>	<b>238,081</b>	<b>138,103</b>	<b>376,184</b>
<b>Balance at 30 September 2014</b>	<b>13,997</b>	<b>41,992</b>	<b>293,373</b>	<b>2,559</b>	<b>983,999</b>	<b>388,740</b>	<b>14,416</b>	<b>(379,081)</b>	<b>11,511</b>	<b>195,137</b>	<b>2,146,771</b>	<b>3,713,414</b>	<b>2,284,847</b>	<b>5,998,261</b>

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

	Equity attributable to owners of the Company														
	Share capital (unaudited)	Proposed dividend (unaudited)	Share premium account (unaudited)	Treasury shares (unaudited)	Capital redemption reserve (unaudited)	Contributed surplus (unaudited)	Exchange fluctuation reserve (unaudited)	Share options reserve (unaudited)	Other reserves (unaudited)	Available-for-sale financial assets			Non-controlling interests (unaudited)	Total equity (unaudited)	
										revaluation reserve (unaudited)	Statutory reserves (unaudited)	Retained earnings (unaudited)			Total (unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Balance at 1 April 2013</b>	<b>14,430</b>	<b>43,291</b>	<b>417,773</b>	<b>-</b>	<b>2,126</b>	<b>1,095,703</b>	<b>357,612</b>	<b>5,204</b>	<b>(384,213)</b>	<b>6,707</b>	<b>151,625</b>	<b>1,672,942</b>	<b>3,385,200</b>	<b>1,810,733</b>	<b>5,195,933</b>
Share repurchase (note 14)	-	-	-	(68,364)	-	-	-	-	-	-	-	-	(68,364)	-	(68,364)
Share repurchase expenses	-	-	-	(244)	-	-	-	-	-	-	-	-	-	(244)	(244)
Arising from acquisition of subsidiaries and business	-	-	-	-	-	-	-	-	-	-	-	-	-	9,415	9,415
Additional interests in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	32,967	-	-	-	32,967	(41,885)	(8,918)
Capital contribution by non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	92,076	92,076
Final dividend paid (note 9(b))	-	(43,291)	-	-	-	379	-	-	-	-	-	-	(42,912)	-	(42,912)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,675)	(23,675)
<b>Transactions with owners</b>	<b>-</b>	<b>(43,291)</b>	<b>-</b>	<b>(68,608)</b>	<b>-</b>	<b>379</b>	<b>-</b>	<b>-</b>	<b>32,967</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(78,553)</b>	<b>35,931</b>	<b>(42,622)</b>
<b>Proposed interim dividend</b>	<b>-</b>	<b>28,861</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,861)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	156,711	156,711	121,008	277,719
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	2,156	-	-	2,156	-	2,156
- Currency translation	-	-	-	-	-	-	33,237	-	-	-	-	-	33,237	22,240	55,477
- Share of other comprehensive income of associates	-	-	-	-	-	-	6,241	-	8,923	-	-	-	15,164	-	15,164
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,478</b>	<b>-</b>	<b>8,923</b>	<b>2,156</b>	<b>-</b>	<b>156,711</b>	<b>207,268</b>	<b>143,248</b>	<b>350,516</b>
<b>Balance at 30 September 2013</b>	<b>14,430</b>	<b>28,861</b>	<b>417,773</b>	<b>(68,608)</b>	<b>2,126</b>	<b>1,067,221</b>	<b>397,090</b>	<b>5,204</b>	<b>(342,323)</b>	<b>8,863</b>	<b>151,625</b>	<b>1,829,653</b>	<b>3,511,915</b>	<b>1,989,912</b>	<b>5,501,827</b>

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) HK\$'000	Sewage treatment operation and construction (unaudited) HK\$'000	Property development and investment (unaudited) HK\$'000	Concrete related products and services (unaudited) HK\$'000	All other segments (unaudited) HK\$'000	Total (unaudited) HK\$'000
<b>Revenue</b>						
From external customers	997,566	81,651	71,013	172,189	33,111	1,355,530
From inter-segment	-	-	-	-	-	-
<b>Segment revenue</b>	<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>
<b>Segment profit</b>	<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)
<b>Profit for the period</b>						<u>374,582</u>
<b>Total segment assets</b>	<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
<b>Revenue</b>						
From external customers	868,544	35,240	36,040	182,220	22,950	1,144,994
From inter-segment	-	-	-	-	-	-
<b>Segment revenue</b>	<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>
<b>Segment profit/(loss)</b>	<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)
<b>Profit for the period</b>						<u>277,719</u>
<b>Total segment assets</b>	<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

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

#### 5. Profit from operation

Profit from operation is arrived at after charging:

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

#### 6. Finance costs

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

	<b>Consolidated Six months ended 30 September</b>	
	<b>2014 (unaudited) HK\$'000</b>	2013 (unaudited) HK\$'000
Current		
– PRC	<b>133,652</b>	78,490
Deferred		
– tax charge for the period	<b>51,820</b>	22,202
Total tax charge for the period	<b>185,472</b>	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

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

	<b>2014 HK\$'000</b>	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. Other financial assets

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
Unlisted debt securities in Hong Kong, at fair value (note (i))	<b>68,474</b>	67,263
Unlisted equity securities outside Hong Kong, at cost (note (ii))	<b>96,553</b>	96,553
	<b>165,027</b>	163,816

*Notes:*

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

The Group held the Water Property Convertible Bonds with a principal amount of HK\$81,550,000 as at 1 April 2012. During the six months ended 30 September 2014 and the year ended 31 March 2014, there was no disposal or conversion of the Water Property Convertible Bonds.

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

The fair value of the debt element was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to instruments of similar terms. The effective interest rates of the debt element at 30 September 2014 is 9.700%. The fair value of the debt element has been determined by APAC Asset Valuation and Consulting 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 APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers on Binomial model basis.

The major inputs used in the model are as follows:

	<b>As at</b>	
	<b>30 September 2014</b>	31 March 2014
Stock price	<b>HK\$0.57</b>	HK\$0.60
Expected volatility	<b>56.000%</b>	47.868%
Risk free rate	<b>0.92%</b>	1.10%
Expected dividend yield	<b>Nil</b>	Nil

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

	<b>Debt element – Unlisted debt securities</b> HK\$'000	<b>Conversion options element – Conversion options embedded in convertible bonds</b> HK\$'000
<b>Net carrying amount at 1 April 2013</b>	63,670	103,990
Change in fair value		
– charged to profit or loss	–	(26,934)
– credited to equity	3,593	–
<b>Net carrying amount at 31 March 2014 and at 1 April 2014</b>	67,263	77,056
Change in fair value		
– charged to profit or loss	–	(8,131)
– credited to equity	1,211	–
<b>Net carrying amount at 30 September 2014</b>	<b>68,474</b>	<b>68,925</b>

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

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
Listed equity securities, at market value:		
– Elsewhere	<b>1,352</b>	1,303

Fair values of the listed equity securities have been determined by reference to their quoted bid prices at the reporting date in an active market.

## 11. Trade and bills receivables

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
0 to 90 days	<b>284,587</b>	253,967
91 to 180 days	<b>90,700</b>	73,189
Over 180 days	<b>289,162</b>	250,454
	<b>664,449</b>	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.

## 12. Trade and bills payables

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
0 to 90 days	<b>243,231</b>	229,682
91 to 180 days	<b>52,806</b>	94,844
Over 180 days	<b>200,767</b>	204,497
	<b>496,804</b>	529,023

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

As at 30 September 2014, the bills payables of HK\$50,722,000 (31 March 2014: HK\$103,764,000) were secured by the pledged bank deposits of HK\$24,241,000 (31 March 2014: HK\$39,260,000).

**13. Convertible bonds and derivative financial liabilities**

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

<b>Liability component</b>	<b>Convertible Bonds</b> <i>(note)</i>
	HK\$'000
Net carrying amount at 1 April 2013	496,838
Arising from repurchases	(338,754)
Interest expenses	13,518
Interest on convertible bonds paid	(8,141)
Net carrying amount at 31 March 2014 and at 1 April 2014	163,461
Arising from repurchases	(5,846)
Interest expenses	6,155
Interest on convertible bonds paid	(2,080)
<b>Net carrying amount at 30 September 2014</b>	<b>161,690</b>

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
Current portion	<b>161,690</b>	–
Non-current portion	–	163,461
	<b>161,690</b>	163,461

**Derivative component – classified as current liabilities**

	HK\$'000
Net carrying amount at 1 April 2013	14,513
Arising from repurchases	(8,784)
Change in fair value of derivative financial instruments	(753)
Net carrying amount at 31 March 2014 and at 1 April 2014	4,976
Arising from repurchases	(259)
Change in fair value of derivative financial instruments	3,425
<b>Net carrying amount at 30 September 2014</b>	<b>8,142</b>

*Note:*

On 10 March 2010, the Company entered into a subscription agreement with DBS Bank Limited ("DBS") pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK\$600 million (the "Convertible Bonds") at 2.5% coupon rate per annum with maturity on 15 April 2015. The Convertible Bonds are convertible at any time on or after 26 May 2010 and up to the close of business on 5 April 2015 by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholders, at an initial conversion price of HK\$4 per share (the "Conversion Price"). The conversion price is subject to adjustment on the occurrence of dilutive or concentrative event. If on 15 April 2011, the average of the volume weighted average price (the "Average Market Price") of the shares of the Company on each trading day in the period of 20 consecutive trading days before the day immediately prior to 15 April 2011 is less than the Conversion Price on the 15 April 2011, the Conversion Price shall be reset to the Average Market Price (the "Conversion Price Reset") provided that the Conversion Price shall not be reduced on 15 April 2011 to below HK\$3.15 (before adjustment). On 17 September 2010, 16 December 2010, 15 April 2011, 6 September 2011, 12 September 2012, 17 September 2013 and 17 September 2014, the Convertible Price was reset to HK\$3.96, HK\$3.93, HK\$3.10, HK\$3.07, HK\$2.99, HK\$2.93 and HK\$2.88 respectively. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at 120.06 per cent of its principal amount on 15 April 2015.

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

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

On 15 April 2013, the bondholders of the Convertible Bonds will have the right at such holders' option, to require the Company to redeem all or some of the Convertible Bonds (in whole but not in part) at 111.32 per cent of their unpaid principal amount as at 15 April 2013. To exercise such right, the holder of the Convertible Bonds must provide to the Company a redemption notice ("Redemption Notice") not less than 15 days nor more than 60 days before 15 April 2013.

As of 31 March 2013, the Company received Redemption Notice of aggregate principal amount of HK\$286,700,000 at the total consideration of HK\$319,154,000. The redemption pursuant to the Redemption Notice was completed on 15 April 2013. Immediately after completion of the above redemption, the outstanding principal amount of the Convertible Bonds is HK\$187,800,000. In addition, during the six months ended 30 September 2014, the Company repurchased the Convertible Bonds with an aggregate principal amount of HK\$5,000,000 (2013: HK\$21,000,000) at the total consideration of HK\$5,960,000 (2013: HK\$24,033,000). After completion of the above repurchase, the outstanding principal amount of the Convertible Bonds is HK\$156,800,000 (2013: HK\$166,800,000). The Group recognised a gain on repurchase/redemption of the Convertible Bonds of HK\$116,000 (2013: loss of HK\$1,657,000) during the six months ended 30 September 2014.

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

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

	<b>As at</b>	
	<b>30 September 2014</b>	31 March 2014
Stock price	<b>HK\$3.44</b>	HK\$2.46
Expected volatility	<b>13.300%</b>	41.466%
Risk free rate	<b>0.079%</b>	0.211%

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 2014 results in a fair value loss of HK\$3,425,000 (2013: fair value loss of HK\$9,420,000), which has been included in the "Change in fair value of derivative financial instruments" in the consolidated income statement for the six months ended 30 September 2014.

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

#### 14. Share capital

	<b>Number of shares</b> '000	<b>Par value</b> HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2014 and 31 March 2014	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2013	1,443,030	14,430
Repurchased and cancelled*	<u>(38,120)</u>	<u>(381)</u>
Ordinary shares of HK\$0.01 each at 31 March 2014 and 1 April 2014	1,404,910	14,049
Repurchased and cancelled*	<u>(5,192)</u>	<u>(52)</u>
At 30 September 2014	<u>1,399,718</u>	<u>13,997</u>

- \* During the six months 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 repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

During the year ended 31 March 2014, the Company repurchased a total of 38,120,000 ordinary shares of HK\$0.01 each in the capital of the Company at an aggregate price of approximately HK\$111,262,000. The highest price paid and the lowest price paid was HK\$3.15 and HK\$2.64 respectively. All repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

## 15. Pledge of assets

Details of the pledge of assets of the Group for securing certain loan facilities and bills payables at 30 September 2014 were as follows:

- (a) pledge of water and sewage treatment revenue of certain subsidiaries;
- (b) charges over property, plant and equipment in which their aggregate carrying amounts as at 30 September 2014 was HK\$277,321,000 (31 March 2014: HK\$296,910,000);
- (c) charges over interests in land use rights in which their aggregate carrying amounts as at 30 September 2014 was HK\$149,988,000 (31 March 2014: HK\$163,881,000);
- (d) charges over investment properties in which their aggregate carrying amounts as at 31 March 2014 was HK\$52,797,000;
- (e) charges over other intangible assets in which their aggregate carrying amounts as at 30 September 2014 was HK\$62,165,000 (31 March 2014: HK\$181,999,000);
- (f) charges over the properties under development in which their aggregate carrying amounts as at 30 September 2014 was HK\$59,335,000 (31 March 2014: HK\$59,335,000);
- (g) charges over the Group's bank deposits in amount of HK\$153,901,000 as at 30 September 2014 (31 March 2014: HK\$179,200,000); and
- (h) charges over (1) shares of certain subsidiaries of the Group; (2) the Group's equity interests in Water Property; and (3) a bank account of the Group.



## 16. Related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim report, the Group had the following material related party transactions during the interim period:

Compensation of key management personnel of the Group:

	<b>Consolidated Six months ended 30 September</b>	
	<b>2014 (unaudited) HK\$'000</b>	2013 (unaudited) HK\$'000
Total remuneration of directors and other members of key management during the period		
– Short term employee benefits	<b>27,054</b>	25,198
– Retirement scheme contribution	<b>126</b>	85
	<b>27,180</b>	25,283

## 17. Commitments and guarantee

### (i) Capital commitments

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
Contracted, but not provided for		
– Construction in progress	<b>54,928</b>	59,902
– Plant and machinery	<b>56,102</b>	68,338
– Water pipelines	<b>24,757</b>	7,581
	<b>135,787</b>	135,821

### (ii) Operating lease arrangement

#### As lessee

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

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
Within one year	<b>34,862</b>	34,233
In the second to fifth years, inclusive	<b>126,482</b>	126,766
After five years	<b>341,523</b>	352,162
	<b>502,867</b>	513,161

#### **As lessor**

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

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

	<b>As at</b>	
	<b>30 September 2014 (unaudited) HK\$'000</b>	31 March 2014 (audited) HK\$'000
Within one year	<b>18,197</b>	22,416
In the second to fifth years, inclusive	<b>35,361</b>	39,386
After five years	<b>10,093</b>	12,642
	<b>63,651</b>	74,444

- (iii) As at 30 September 2014, the Group had given guarantee to banks for mortgage loans granted to purchasers of certain subsidiaries' properties of approximately HK\$10,938,000 (31 March 2014: HK\$10,600,000). In the opinion of the directors, the financial impact arising from the above guarantee is insignificant and accordingly, they are not accounted for in the consolidated financial statements.

## **18. Contingent liabilities**

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

## 19. 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"), 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 interim report, 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, 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 interim report, 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.

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

At 30 September 2014, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

### Shares

Name of director	Capacity/Nature of interest	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note)	Corporate and personal	333,806,301	–	23.85%
Ms. Ding Bin	Personal	290,000	–	0.02%
Ms. Liu Yu Jie	Personal	3,054,000	–	0.22%
Mr. Chen Guo Ru	Personal	3,000,000	–	0.21%
Mr. Zhao Hai Hu	Personal	1,306,000	–	0.09%
Mr. Zhou Wen Zhi	Personal	870,000	–	0.06%

*Note:* These 333,806,301 shares consist of 152,730,301 shares held by Asset Full Resources Limited, which is wholly and beneficially owned by Mr. Duan Chuan Liang, and 181,076,000 shares held by Mr. Duan Chuan Liang personally.

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

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2014, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Name of shareholder	Capacity/Nature of interest	Number of shares			Approximate percentage of shareholding in the Company		
		Long position	Short position	Lending pool	Long position	Short position	Lending pool
Duan Chuan Liang	Beneficial	333,806,301	-	-	23.85%	-	-
Asset Full Resources Limited ( <i>Note</i> )	Beneficial	152,730,301	-	-	10.91%	-	-
ORIX Corporation	Beneficial	291,170,277	-	-	20.80%	-	-
JP Morgan Chase & Co.	Beneficial/Custodian	132,756,850	28,000	132,646,000	9.48%	-	9.48%
Norges Bank	Beneficial	97,954,400	-	-	7.00%	-	-

*Note:* These shares are beneficially owned by Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Mr. Duan Chuan Liang, an executive director and chairman of the Company.



Save as disclosed above, as at 30 September 2014, so far as is known to any director or chief executive of the Company, no person (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The board of directors (the "Board") reviews its corporate governance system from time to time in order to meet the rising expectations of shareholders and comply with the increasingly tightened regulatory requirements. During the six months ended 30 September 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	Lowest price per share	Aggregate consideration (excluding expenses)
		HK\$	HK\$	HK\$
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.

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 report, 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.*