中國水務集團有限公司*
China Water Affairs Group Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 855)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

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 2011, together with the comparative figures for the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2011	2010
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**867,425**	627,403
Cost of sales		**(477,266)**	(337,788)
Gross profit		**390,159**	289,615
Other income	4	**26,690**	47,740
Selling and distribution costs		**(32,569)**	(25,063)
Administrative expenses		**(136,770)**	(133,361)
Fair value gain on investment properties		**53,667**	–
Gain on disposal of assets classified as held for sale		**31,373**	201,189
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)		**22,515**	68,284
Loss on redemption of convertible bonds		**–**	(16,460)

* *For identification purposes only*

	Notes	Six months ended 30 September 2011 (unaudited) HK$'000	2010 (unaudited) HK$'000
Profit from operation	5	**355,065**	431,944
Finance costs	6	**(60,034)**	(63,660)
Share of results of associates		**14,264**	3,558
Profit before income tax		**309,295**	371,842
Income tax expense	7	**(71,881)**	(35,925)
Profit for the period		**237,414**	335,917
Attributable to:			
Owners of the Company		**150,906**	271,240
Non-controlling interests		**86,508**	64,677
Profit for the period		**237,414**	335,917
Earnings per share for profit attributable to owners of the Company during the period	8	***HK cents***	*HK cents*
Basic		**9.97**	20.30
Diluted		**N/A**	18.04

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period	**237,414**	335,917
Other comprehensive income:		
– Change in fair value of available-for-sale financial assets	**(9,155)**	(137,512)
– Currency translation	**53,471**	–
– Share of other comprehensive income of associates	**731**	–
Other comprehensive income for the period, net of tax	**45,047**	(137,512)
Total comprehensive income for the period	**282,461**	198,405
Total comprehensive income attributable to:		
Owners of the Company	**182,619**	133,728
Non-controlling interests	**99,842**	64,677
	282,461	198,405

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 September	31 March
		2011	2011
		(unaudited)	(audited)
	Notes	***HK$'000***	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,743,324**	3,403,298
Prepaid land lease payments		**486,843**	442,678
Investment properties		**871,455**	840,227
Interests in associates		**556,939**	536,117
Available-for-sale financial assets		**113,809**	123,190
Goodwill		**179,692**	172,667
Other intangible assets		**175,374**	178,665
Due from associates		**112,000**	–
Deposits and prepayments		**189,602**	287,875
		6,429,038	5,984,717
Current assets			
Properties under development		**67,324**	30,300
Properties held for sale		**71,330**	63,913
Inventories		**184,956**	95,592
Trade receivables	10	**413,051**	359,147
Amounts due from grantors for contract work		**105,429**	103,910
Financial assets at fair value through profit or loss		**1,726**	4,062
Due from non-controlling equity holders of subsidiaries		**253,667**	198,102
Due from associates		**46,599**	–
Prepayments, deposits and other receivables		**576,952**	515,637
Derivative financial assets		**82,514**	47,390
Pledged deposits		**39,003**	25,873
Cash and cash equivalents		**916,637**	848,635
		2,759,188	2,292,561
Assets classified as held for sale		**–**	84,158
		2,759,188	2,376,719

		As at	
		30 September	31 March
		2011	2011
		(unaudited)	(audited)
	Notes	***HK$'000***	*HK$'000*
Current liabilities			
Trade payables	11	**416,616**	346,707
Accrued liabilities, deposits received and other payables		**887,361**	745,704
Borrowings		**769,825**	623,397
Due to non-controlling equity holders of subsidiaries		**34,195**	68,897
Provision for tax		**148,894**	124,227
Derivative financial liabilities		**38,591**	25,982
		2,295,482	1,934,914
Net current assets		**463,706**	441,805
Total assets less current liabilities		**6,892,744**	6,426,522
Non-current liabilities			
Borrowings		**1,190,874**	1,211,134
Due to non-controlling equity holders of subsidiaries		**37,821**	37,371
Convertible bonds		**586,324**	569,141
Deferred government grants		**57,715**	54,603
Deferred tax liabilities		**231,326**	220,944
		2,104,060	2,093,193
Net assets		**4,788,684**	4,333,329
EQUITY			
Equity attributable to owners of the Company			
Share capital		**15,347**	13,859
Proposed dividend		**30,694**	41,576
Reserves		**3,222,619**	2,809,197
		3,268,660	2,864,632
Non-controlling interests		**1,520,024**	1,468,697
Total equity		**4,788,684**	4,333,329

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 2011 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 2011.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) – Interpretation 14 (Amendments)	Prepayment of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instrument

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

The Group has not early applied the following new or revised standards and amendments that have been issued but are not yet effective.

HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]
HKFRS 1 (Amendments)	First-time Adoption of HKFRSs – Severe Hyperinflation, and Removal of Fixed Dates for First Time Adopters[1]
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Item of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.

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 ("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; and

(iii) "Other infrastructure construction" segment involves construction of road and other municipal works.

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". "All other segments" includes manufacture and sale of concrete products and other business activities.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs and mainly exclude gain on disposal of assets classified as held for sale, change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants), loss on redemption of convertible bonds, finance costs, share of results of associates, corporate income, corporate expense and income tax expense.

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, derivative financial assets and interests in associates.

For the financial period ended 30 September 2011

	City water supply operation and construction (unaudited) *HK$'000*	Sewage treatment operation and construction (unaudited) *HK$'000*	Property development and investment (unaudited) *HK$'000*	Other infrastructure construction (unaudited) *HK$'000*	All other segments (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Revenue						
From external customers	702,090	21,878	4,562	–	138,895	867,425
From inter-segment	–	–	–	–	–	–
Segment revenue	702,090	21,878	4,562	–	138,895	867,425
Segment profit/(loss)	256,412	10,523	47,256	(214)	17,426	331,403
Unallocated corporate income						21,593
Unallocated corporate expense						(51,819)
Gain on disposal of assets classified as held for sale						31,373
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds and warrants)						22,515
Finance costs						(60,034)
Share of results of associates						14,264
Profit before income tax						309,295
Income tax expense						(71,881)
Profit for the period						237,414
Total segment assets	4,533,556	243,685	1,386,908	176,260	358,099	6,698,508

For the financial period ended 30 September 2010

	City water supply operation and construction (unaudited) *HK$'000*	Sewage treatment operation and construction (unaudited) *HK$'000*	Property development and investment (unaudited) *HK$'000*	Other infrastructure construction (unaudited) *HK$'000*	All other segments (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Revenue						
From external customers	521,100	21,773	–	–	84,530	627,403
From inter-segment	–	–	–	–	–	–
Segment revenue	521,100	21,773	–	–	84,530	627,403
Segment profit/(loss)	184,978	9,442	486	(1,006)	27,224	221,124
Unallocated corporate income						17,099
Unallocated corporate expense						(59,292)
Gain on disposal of assets classified as 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)
Finance costs						(63,660)
Share of results of associates						3,558
Profit before income tax						371,842
Income tax expense						(35,925)
Profit for the period						335,917
Total segment assets	4,265,978	223,655	1,135,413	454,911	240,698	6,320,655

The Group's revenues from external customers by geographical areas are not presented as the geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

4. OTHER INCOME

	Consolidated Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest income	**13,479**	1,607
Dividend income from financial assets	**2,249**	9,347
Government grants and subsidies	**3,944**	27,610
Miscellaneous income	**7,018**	9,176
Total	**26,690**	47,740

5. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

	Consolidated Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Depreciation	**90,757**	68,171
Amortisation of prepaid land lease payments	**7,618**	3,356
Amortisation of other intangible assets	**4,127**	3,813

6. FINANCE COSTS

	Consolidated Six months ended 30 September **2011** **(unaudited)** ***HK$'000***	 2010 (unaudited) *HK$'000*
Interest on bank loans	**44,011**	33,997
Interest on other borrowings	**8,270**	8,746
Interest on convertible bonds	**24,683**	26,226
Convertible bonds issuance expenses charged to income statement	**–**	1,289
Total borrowing costs	**76,964**	70,258
Less: interest capitalised included in property, plant and equipment	**(16,930)**	(6,598)
	60,034	63,660

7. INCOME TAX EXPENSE

Income tax expense 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 (2010: Nil).

	Consolidated Six months ended 30 September **2011** **(unaudited)** ***HK$'000***	 2010 (unaudited) *HK$'000*
Current		
– PRC	**64,161**	35,925
Deferred		
– tax charge for the period	**7,720**	–
Total tax charge for the period	**71,881**	35,925

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$150,906,000 (2010: HK$271,240,000) and on the weighted average of 1,513,804,002 (2010: 1,336,273,868) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 September 2011 in respect of a dilution as the impact of the Company's warrants, convertible bonds and share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

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 adjusted 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.

9. DIVIDENDS

(a) Dividends attributable to the interim period

	Consolidated Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend		
– HK$0.02 (2010: HK$0.02) per ordinary share	**30,694**	27,083

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 2011.

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

	2011	2010
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year of HK$0.03 (2010: HK$0.03) per ordinary share	**41,576**	39,980
Adjustment to the final dividend*	**4,465**	645
	46,041	40,625

* The adjustment was due to subscription of new shares and cancellation of the Company's repurchased shares prior to the date of the final dividend and, therefore, the related shares rank for this dividend payment.

10. TRADE RECEIVABLES

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

	As at	
	30 September	31 March
	2011	2011
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Current to 90 days	**146,939**	111,934
91 to 180 days	**36,648**	37,648
Over 180 days	**229,464**	209,565
	413,051	359,147

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for construction related projects 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 allowance for impairment of trade receivables is necessary as there was no recent history of significant default in respect of these trade debtors. Trade receivables that were neither past due nor impaired related to a large number of independent customers that had a good track record of credit with the Group. In general, the Group does not hold any collateral or other credit enhancements over these balances.

11. TRADE PAYABLES

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

	As at	
	30 September 2011 (unaudited) HK$'000	31 March 2011 (audited) HK$'000
Current to 90 days	**137,736**	84,728
91 to 180 days	**27,000**	34,905
Over 180 days	**251,880**	227,074
	416,616	346,707

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

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 2011 (2010: HK$0.02 per ordinary share). The interim dividend will be payable on or about Friday, 6 January 2012 to the shareholders whose names appear on the register of member on Friday, 23 December 2011.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK$627.4 million for the six months ended 30 September 2010 to HK$867.4 million for the six months ended 30 September 2011, representing an increase of 38.3%. 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 HK$724.0 million, representing an increase of 33.4% when compared with the total "Water" segment revenue of HK$542.9 million in the corresponding period. This organic growth of "Water" segment is mainly attributable to the successful growth of the Group through various mergers and acquisition, increase in operating efficiency and tariff of the water supply and sewage treatment plants.

(i) *Water Supply Business Analysis*

City water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Henan, Hainan, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing.

For the period under review, the revenue from city water supply operation and construction amounted to HK$702.1 million (2010: HK$521.1 million), representing an increase of 34.7% 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$256.4 million (2010: HK$185.0 million), representing an increase of 38.6% as compared with the last corresponding period.

Two new water supply projects of the Group located in Jian and Yifeng of Jiangxi province contributed total additional revenue of HK$28.1 million and net profit of HK$4.9 million to the Group for the period under view.

The water supply project of the Group located in Wuzhou of Guangxi province which is accounted for as an associate of the Group contributed net profit of HK$5.1 million to the Group (2010: HK$3.6 million).

(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$21.9 million (2010: HK$21.8 million), representing an increase of 0.5% as compared with the last corresponding period. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK$10.5 million (2010: HK$9.4 million), representing an increase of 11.7% 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 Jiangxi and Hunan provinces.

For the period under review, the revenue from the property business segment amounted to HK$4.6 million (2010: Nil). The total property business segment profit amounted to HK$47.3 million (2010: HK$0.5 million), representing an increase of 9,360.0% as compared with the last corresponding period, which was mainly due to the fair value gain on investment properties amounted to HK$53.7 million. The Group expected that its performance would be strengthened by the realisation of value from the Group's property development and investment projects in the near future.

(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 (2010: Nil) The total other infrastructure construction business segment loss amounted to HK$0.2 million (2010: loss of HK$1.0 million).

For the period under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to HK$31.4 million, which represented the gain on disposal of remaining 15% equity interest in 江河農村電氣化發展有限公司(“江河農電”). For the corresponding period under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to HK$201.2 million, which represented the aggregate gain on disposal of 35% equity interest in 江河農電 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.

POST REPORTING DATE EVENTS

Save as disclosed elsewhere in this interim results announcement, the Group had the following material events after 30 September 2011:

(a) Subsequent to the reporting date and up to the date of this interim results announcement, the Company repurchased a total of 22,518,000 ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately HK$46,095,000. The highest price paid and the lowest price paid was HK$2.28 and HK$1.80 respectively. 41,796,000 repurchased shares were cancelled on 2 November 2011.

(b) On 8 July 2011, the Group entered into a facility agreement with Asian Development Bank for a loan facility of up to US$100 million. The Group shall apply the amount borrowed for the investment in and construction, operation, maintenance and rehabilitation of water supply projects in the PRC. Up to the date of this report, the Group has utilised the loan facility of approximately HK$311,756,000.

(c) On 28 July 2011, the Company has entered into an underwriting agreement with its associate, China Water Property Group Limited ("Water Property") (Stock code: 2349), as the underwriter to fully underwrite the offer shares (other than 1,202,265 offer shares to be taken up by Mr. Duan Chuan Liang, a director of the Company and Water Property) under the Water Property's open offer subject to the terms and conditions of the underwriting agreement (the "Water Property's Open Offer"). Under the underwriting agreement, the Company and Water Property have agreed that the subscription price payable by the Company for the offer shares to which the Group are entitled under the Water Property's Open Offer and the underwritten shares would be by way of the set off against the loan of HK$112 million indebted to the Group in the first place and the remaining balance of the subscription price will be settled in cash.

    Assuming that no qualifying shareholders of Water Property to be taken up any offer shares, the aggregate number of offer shares to be taken up by the Group (other than 1,202,265 offer shares to be taken up by Mr. Duan Chuan Liang) shall amount to 501,289,981 offer shares and the aggregate subscription to be paid by the Group in such event shall amount to a maximum of HK$250,645,000.

    The Water Property's Open Offer was completed in October 2011 and the Group subscribed 415,809,586 offer shares at the subscription price of HK$207,905,000. Immediately after completion of the Water Property's Open Offer, the Group's equity interest in Water Property was increased to 44.10%.

(d) On 7 October 2011, the Company repurchased its convertible bonds due 2015 ("2015 Convertible Bonds") with a principal amount of HK$64,500,000 at the consideration of approximately HK$58,050,000. After completion of the above repurchase, the outstanding principal amount of the 2015 Convertible Bonds is HK$535,500,000.

FUTURE PROSPECTS

Going forward, the impending risks in the European and the U.S. financial markets together with the continuing effect of monetary policy tightening in China made the global economic environment in the second half of financial year ending 31 March 2012 full of challenge. However, the Group is optimistic while cautious of the prospects in that (i) the Central Chinese government published policy on water conservancy that have drawn unprecedented attention; (ii) the Group generates a stable cash flow from its water supply business; and (iii) the Group strengthened its cash flow by placing of 235,598,277 new shares to ORIX Corporation in May 2011 which raised total cash consideration of approximately HK$801.0 million (before expense) and securing a loan facility of up to US$100 million from the Asian Development Bank in July 2011.

Leverage on the above advantages, the Group will continue the policy of conservative cash flow management by identifying with prevailing good investment opportunities while maintaining a sound financial position in the present uncertain economic environment.

CAPITAL RAISING

On 19 May 2011, the Company and ORIX Corporation ("ORIX") entered into a subscription agreement pursuant to which ORIX agreed to subscribe 235,598,277 new ordinary shares of the Company at the price of HK$3.40 per share. The net proceeds from the subscription of new shares will be used for water related investments and for general working capital of the Group. On 30 May 2011, the subscription completed and raised total cash consideration of approximately HK$801.0 million (before expenses).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2011, the Group has total cash and bank balances of approximately HK$955.6 million (31 March 2011: HK$874.5 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 47.9% (31 March 2011: 48.2%) as at 30 September 2011. The current ratio is 1.20 times (31 March 2011: 1.23 times) as at 30 September 2011. 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 2011, the Group has employed approximately 4,900 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.

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 2011, except for certain deviations as follows:

Code Provision A.2.1

Deviation existed in respect of the distinctive roles of chairman and chief executive officer as described in the 2011 annual report. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board continues to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has strong confidence in the executive directors and believes that this structure is beneficial to the business prospects of the Company.

Code Provision A.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 to the Listing Rules for the six months ended 30 September 2011.

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

During the six months ended 30 September 2011 and subsequent to the reporting date and up to the date of this interim results announcement, 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$*	*HK$*
June 2011	7,968,000	2.80	2.69	22,060,000
July 2011	29,374,000	2.88	2.71	82,645,000
August 2011	49,442,000	2.71	2.37	126,266,000
September 2011	19,278,000	2.64	2.17	47,379,000
October 2011	22,518,000	2.28	1.80	45,929,000

During the period ended 30 September 2011, the Company repurchased a total of 106,062,000 ordinary shares of HK$0.01 each in the capital of the Company. 31,274,000 and 55,510,000 of the repurchased shares were cancelled in July 2011 and August 2011 respectively. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company. The remaining 19,278,000 of the repurchased shares were not cancelled at 30 September 2011.

Subsequent to the reporting date and up to the date of this interim results announcement, the Company repurchased a total of 22,518,000 ordinary shares of HK$0.01 each in the capital of the Company. 41,796,000 of repurchased shares were cancelled in October 2011. Accordingly, the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19 December 2011 to Friday, 23 December 2011 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 2011, 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, 16 December 2011.

REMUNERATION COMMITTEE

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

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 accounts for the six months ended 30 September 2011 with the directors.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

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

Hong Kong, 28 November 2011

As at the date of this announcement, 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.