



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 RESULTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2008

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 2008, together with the comparative figures for the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2008	2007
	<i>Notes</i>	(unaudited)	(unaudited)
		HK\$'000	HK\$'000
			(restated)
Continuing operations			
Revenue	3	385,965	364,229
Cost of sales		249,316	222,604
Gross profit		136,649	141,625
Valuation surplus/(deficiency) on investment properties		(21,050)	91,310
Fair value gain/(loss) on financial assets at fair value through profit or loss		(175,241)	262,450
Gain on early redemption of convertible bonds		47,468	–
Other income	4	25,778	32,014
Selling and distribution costs		(15,222)	(11,544)
Administrative expenses		(113,059)	(63,874)
Equity-settled share options expenses		(10,562)	(39,989)
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)		(40,997)	–
Profit/(Loss) from operation	5	(166,236)	411,992
Finance costs	6	(42,463)	(18,952)
Share of results of associates		4,319	–
Share of results of joint venture		(8)	–
Profit/(Loss) before income tax		(204,388)	393,040
Income tax credit/(expense)	7	32,746	(118,552)
Profit/(Loss) for the period from continuing operations		(171,642)	274,488

* For identification purposes only

		Six months ended	
		30 September	
		2008	2007
		(unaudited)	(unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
			(restated)
Discontinued operation			
Profit for the period from a discontinued operation		–	7,871
		<u>–</u>	<u>7,871</u>
Profit/(Loss) for the period		<u>(171,642)</u>	<u>282,359</u>
Attributable to:			
Equity holders of the Company		(185,974)	211,726
Minority interests		14,332	70,633
		<u>(185,974)</u>	<u>211,726</u>
		<u>14,332</u>	<u>70,633</u>
Profit/(Loss) for the period		<u>(171,642)</u>	<u>282,359</u>
Earnings (Loss) per share attributable to equity holders of the Company during the period			
	8	HK cents	HK cents
Basic			
– For profit/(Loss) for the period		(15.14)	17.36
– For profit from continuing operations		(15.14)	17.05
		<u>(15.14)</u>	<u>17.05</u>
Diluted			
– For profit for the period		N/A	16.29
– For profit from continuing operations		N/A	15.99
		<u>N/A</u>	<u>15.99</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,873,268	1,304,053
Prepaid land lease payments		214,123	192,152
Investment properties	9	178,743	276,978
Interests in associates		103,407	99,088
Interest in a joint venture		4,072	–
Investment in debt securities	13	46,417	132,414
Other financial assets	10	313,207	359,888
Goodwill		142,390	103,634
Other intangible assets		142,529	145,502
Deposits		26,793	364,168
		<u>3,044,949</u>	<u>2,977,877</u>
Current assets			
Properties under development		113,799	21,747
Investment held for sale		141,444	–
Inventories		72,543	39,596
Trade receivables	11	431,848	355,882
Other financial assets	10	122,482	296,314
Due from minority equity holders of subsidiaries		60,943	18,427
Prepayments, deposits and other receivables		265,454	188,659
Conversion options embedded in convertible bonds		43,050	69,824
Pledged deposit		24,143	35,333
Cash and cash equivalents		515,581	422,773
		<u>1,791,287</u>	<u>1,448,555</u>

		As at	
		30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade payables	12	186,142	164,792
Construction contracts		40,704	20,668
Accrued liabilities, deposits received and other payables		466,577	340,965
Borrowings		285,987	181,892
Due to minority equity holders of subsidiaries		291,826	229,657
Provision for tax		64,560	67,951
Derivative financial instruments	14	97,840	94,635
		<u>1,433,636</u>	<u>1,100,560</u>
Net current assets		<u>357,651</u>	<u>347,995</u>
Total assets less current liabilities		<u>3,402,600</u>	<u>3,325,872</u>
Non-current liabilities			
Borrowings		753,690	381,417
Deferred government grants		13,879	14,518
Convertible bonds	14	502,565	590,250
Deferred tax liabilities	15	74,038	113,343
		<u>1,344,172</u>	<u>1,099,528</u>
Net assets		<u><u>2,058,428</u></u>	<u><u>2,226,344</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	16	12,295	12,398
Reserves		1,438,003	1,745,186
		<u>1,450,298</u>	<u>1,757,584</u>
Minority interests		<u>608,130</u>	<u>468,760</u>
Total equity		<u><u>2,058,428</u></u>	<u><u>2,226,344</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	59,886	41,879
Net cash outflow from investing activities	(220,638)	(359,802)
Net cash inflow from financing activities	253,560	672,080
	<hr/>	<hr/>
Increase in cash and cash equivalents	92,808	354,157
Cash and cash equivalents at beginning of period	422,773	520,281
	<hr/>	<hr/>
Cash and cash equivalents at end of period	515,581	874,438
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Bank and cash balances	515,581	874,438
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to equity holders of the Company

	Share capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital redemption reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share option reserve (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Available- for-sale financial assets revaluation reserve (unaudited) HK\$'000	Statutory reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000	Minority interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
At 1 April 2008	12,398	1,173,995	12	70,725	99,631	54,688	7,141	15,863	20,928	302,203	1,757,584	468,760	2,226,344
Repurchase of shares	(103)	(13,617)	-	-	-	-	-	-	-	-	(13,720)	-	(13,720)
Share repurchase expenses	-	(34)	-	-	-	-	-	-	-	-	(34)	-	(34)
Equity-settled share option arrangements	-	-	-	-	-	10,563	-	-	-	-	10,563	-	10,563
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	93,403	93,403
Capital contribution by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	33,237	33,237
Additional interest in subsidiaries acquired by the Group	-	-	-	-	-	-	-	-	-	-	-	(1,602)	(1,602)
Transfer to capital redemption reserve	-	-	103	-	-	-	-	-	-	(103)	-	-	-
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	(49,703)	-	-	(49,703)	-	(49,703)
Change in fair value of investment in debt securities	-	-	-	-	-	-	-	(68,418)	-	-	(68,418)	-	(68,418)
Net income/(expense) recognised directly in equity	-	-	-	-	-	-	-	(118,121)	-	-	(118,121)	-	(118,121)
Loss for the period	-	-	-	-	-	-	-	-	-	(185,974)	(185,974)	14,332	(171,642)
Total recognised income and expense for the period	-	-	-	-	-	-	-	(118,121)	-	(185,974)	(304,095)	14,332	(289,763)
Balance at 30 September 2008	12,295	1,160,344	115	70,725	99,631	65,251	7,141	(102,258)	20,928	116,126	1,450,298	608,130	2,058,428

Attributable to equity holders of the Company

	Share		Capital	Exchange	Share	Convertible	Other	Statutory	Accumulated	Total	Minority	Total				
	capital	premium	Contributed	redemption	fluctuation	option			bond				equity	losses	interests	equity
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			(unaudited)				(unaudited)	(unaudited)	(unaudited)	(unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
At 1 April 2007	11,898	1,062,539	70,725	-	6,680	5,766	2,326	(11,636)	2,045	(106,144)	1,044,199	240,098	1,284,297			
Issue of convertible bonds	-	-	-	-	-	-	6,072	-	-	-	6,072	-	6,072			
Placing and subscription of new shares	141	46,799	-	-	-	-	-	-	-	-	46,940	-	46,940			
Share options exercised	3	432	-	-	-	(175)	-	-	-	-	260	-	260			
Convertible bonds exercised	339	67,234	-	-	-	-	(2,326)	-	-	-	65,247	-	65,247			
Share issue expenses	-	(121)	-	-	-	-	-	-	-	-	(121)	-	(121)			
Arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	168,541	168,541			
Capital contributed by minority equity holders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	20,000	20,000			
Shares repurchased	(13)	(5,292)	-	13	-	-	-	-	-	-	(5,292)	-	(5,292)			
Equity-settled share option arrangements	-	-	-	-	-	39,989	-	-	-	-	39,989	-	39,989			
Currency translation	-	-	-	-	(1,120)	-	-	-	-	-	(1,120)	-	(1,120)			
Profit for the period	-	-	-	-	-	-	-	-	-	211,726	211,726	70,633	282,359			
At 30 September 2007	12,368	1,171,591	70,725	13	5,560	45,580	6,072	(11,636)	2,045	105,582	1,407,900	499,272	1,907,172			

Notes:

1. BASIS OF PREPARATION

The 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 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 2008 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 Hong Kong Institute of Certified Public Accountants as discussed below.

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction.

The Group has assessed the impact of the adoption of the above new and revised HKFRSs and concluded that there was no significant impact on the Group’s results and financial position.

The Group has not early applied the following new and revised HKFRSs, that have been issued but not yet effective in the period covered by these interim condensed consolidated financial statements:

HKFRS 2 Amendments	Share-based Payment — Vesting Conditions and Cancellations (<i>Note 1</i>)
HKFRS 3 (Revised)	Business Combinations (<i>Note 2</i>)
HKFRS 8	Operating Segments (<i>Note 1</i>)
HKAS 1 (Revised)	Presentation of Financial Statements (<i>Note 1</i>)
HKAS 23 (Revised)	Borrowing Costs (<i>Note 1</i>)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (<i>Note 2</i>)
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation (<i>Note 1</i>)
HK(IFRIC)-Int 13	Customer Loyalty Programmes (<i>Note 3</i>)
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate (<i>Note 1</i>)
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation (<i>Note 4</i>)

Note 1 Effective for annual periods beginning on or after 1 January 2009.

Note 2 Effective for annual periods beginning on or after 1 July 2009.

Note 3 Effective for annual periods beginning on or after 1 July 2008.

Note 4 Effective for annual periods beginning on or after 1 October 2008.

The Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group’s financial statements in the period of initial application.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's businesses segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary of details of the business segments are as follows:

- (a) "Water" segment, which is presented as "City water supply" and "Sewage treatment" segments, involves the provision of water supply and sewage treatment;
- (b) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation;
- (c) "Infrastructure construction" segment involves construction of road and other municipal works;
- (d) "Concrete products and others" segment involves manufacture and sale of concrete products and others; and
- (e) "Sea buckthorn related business" segment, which was disposed of during the year ended 31 March 2008, involves cultivation, manufacture and sale of sea buckthorn seedling and sea buckthorn based products.

(a) **Business segments**

For the financial period ended 30 September 2008:

	Continuing operations					Total	Discontinued operation	Consolidated
	City water supply	Sewage treatment	Property development and investment	Infrastructure construction	Concrete products and others		Sea buckthorn related business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue								
External customers	162,893	15,459	-	56,295	65,403	300,050	-	300,050
Installation income	85,915	-	-	-	-	85,915	-	85,915
Revenue	248,808	15,459	-	56,295	65,403	385,965	-	385,965
Other income	19,920	-	-	-	-	19,920	-	19,920
Total	<u>268,728</u>	<u>15,459</u>	<u>-</u>	<u>56,295</u>	<u>65,403</u>	<u>405,885</u>	<u>-</u>	<u>405,885</u>
Segment results	<u>63,965</u>	<u>4,445</u>	<u>(659)</u>	<u>17,566</u>	<u>2,346</u>	<u>87,663</u>	<u>-</u>	<u>87,663</u>
Interest income								2,505
Unallocated corporate income								3,353
Unallocated corporate expense								(59,375)
Valuation deficiency on investment properties			(21,050)					(21,050)
Fair value loss on financial assets at fair value through profit or loss								(175,241)
Gain on early redemption of convertible bonds								47,468
Equity-settled share options expenses								(10,562)
Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)								(40,997)
Loss from operation								(166,236)
Finance costs								(42,463)
Share of results of associates	4,319							4,319
Share of result of a joint venture								(8)
Loss before income tax								(204,388)
Income tax expense								32,746
Loss for the period								<u>(171,642)</u>

For the financial period ended 30 September 2007:

	Continuing operations					Total HK\$'000	Discontinued operation	Consolidated HK\$'000
	City water supply HK\$'000	Sewage treatment HK\$'000	Property development and investment HK\$'000	Infrastructure construction HK\$'000	Concrete products and others HK\$'000		Sea buckthorn related business HK\$'000	
Segment revenue								
External customers	143,028	10,086	16,215	93,000	44,084	306,413	10,710	317,123
Installation income	57,816	-	-	-	-	57,816	-	57,816
Revenue	200,844	10,086	16,215	93,000	44,084	364,229	10,710	374,939
Other income	4,021	826	-	-	-	4,847	8,154	13,001
Total	<u>204,865</u>	<u>10,912</u>	<u>16,215</u>	<u>93,000</u>	<u>44,084</u>	<u>369,076</u>	<u>18,864</u>	<u>387,940</u>
Segment results	<u>50,673</u>	<u>3,513</u>	<u>1,643</u>	<u>41,636</u>	<u>234</u>	<u>97,699</u>	<u>8,834</u>	106,533
Interest income								5,251
Unallocated corporate income								21,916
Unallocated corporate expense								(66,634)
Valuation surplus on investment properties			91,310					91,310
Fair value gain on financial assets at fair value through profit or loss								262,450
Profit from operation								420,826
Finance costs								(18,952)
Profit before income tax								401,874
Income tax expense								(119,515)
Profit for the period								<u>282,359</u>

(b) Geographical segments

No geographical segments are provided as most of revenue, assets and liabilities of the Group for the six months ended 30 September 2008 and 2007 were either generated or located in the PRC.

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, derived from the Group's principal activities recognised during the period is as follows:

	Continuing operations		Group Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2008	2007	2008	2007	2008	2007
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue:						
Sales of goods	54,558	31,275	–	10,710	54,558	41,985
Water supply	162,893	143,028	–	–	162,893	143,028
Water supply related installation	85,915	57,816	–	–	85,915	57,816
Infrastructure construction revenue	56,295	93,000	–	–	56,295	93,000
Sewage treatment	15,459	10,086	–	–	15,459	10,086
Hotel and rental income	3,625	3,035	–	–	3,625	3,035
Others	7,220	25,989	–	–	7,220	25,989
Total	385,965	364,229	–	10,710	385,965	374,939
Other income:						
Interest income	2,505	5,251	–	–	2,505	5,251
Dividend income from financial assets	1,142	4,664	–	–	1,142	4,664
Miscellaneous income	22,131	22,099	–	8,154	22,131	30,253
Total	25,778	32,014	–	8,154	25,778	40,168

5. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

(Loss)/Profit from operating activities is arrived at after charging/(crediting):

	Continuing operations		Group Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2008	2007	2008	2007	2008	2007
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Depreciation	34,216	32,315	-	519	34,216	32,834
Amortisation of prepaid land lease payments	2,315	2,019	-	5	2,315	2,024
Amortisation of other intangible assets	2,973	2,705	-	-	2,973	2,705
	34,216	32,315	-	519	34,216	32,834

6. FINANCE COSTS

	Group Continuing operations	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	18,872	10,115
Interest on other borrowings	4,864	5,764
Interest on convertible bonds	27,151	7,225
Total borrowing costs	50,887	23,104
Less: interest capitalised included in property, plant and equipment	(8,424)	(4,152)
	42,463	18,952

7. INCOME TAX (CREDIT)/EXPENSE

Taxation for other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions. Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2007: Nil).

	Continuing operations		Group Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2008	2007	2008	2007	2008	2007
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Current						
– Hong Kong profits tax	-	-	-	-	-	-
– Overseas taxation	6,559	20,065	-	963	6,559	21,028
	6,559	20,065	-	963	6,559	21,028
Deferred (<i>Note 15</i>)						
– tax charge for the period	-	98,487	-	-	-	98,487
– tax credit for the period	(39,305)	-	-	-	(39,305)	-
	(39,305)	98,487	-	-	(39,305)	98,487
Total tax charge/(credit) for the period	(32,746)	118,552	-	963	(32,746)	119,515

8. EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

	Six months ended	
	30 September	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit/(Loss) attributable to equity holders of the Company	(185,974)	211,726
Less: Profit from discontinued operation	–	(7,871)
Result from discontinued operation attributable to minority interests	–	3,951
	<hr/>	<hr/>
Profit attributable to equity holders of the Company from the discontinued operation	–	(3,920)
	<hr/>	<hr/>
Profit/(Loss) attributable to equity holders of the Company from the continuing operations	<u>(185,974)</u>	<u>207,806</u>

The calculation of basic earnings per share is based on the loss for the period attributable to equity holders of the Company of HK\$185,974,000 (2007: profit of HK\$211,726,000) and the loss for the period attributable to equity holders of the Company from the continuing operations of HK\$185,974,000 (2007: profit of HK\$207,806,000) and on the weighted average of 1,227,970,000 (2007: 1,219,135,778) ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 30 September 2008 are not presented as the potential ordinary shares had anti-dilutive effect on loss per share.

In the calculation of the diluted earnings per share attributable to the equity holders of the Company for the period ended 30 September 2007, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity holders of the Company from continuing operations and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the period attributable to equity holders of the Company of HK\$211,726,000 and the profit for the period attributable to equity holders of the Company from the continuing operations of HK\$207,806,000 and on the weighted average of 1,299,677,909 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 1,219,135,778 used in basic earnings per share calculation and adjusted for the effect of share options existing during the period of 80,542,131.

9. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
Carrying amount at 1 April 2008	276,978
Additions	–
Valuation surplus/(deficiency)	(21,050)
Transfer to properties under development	(77,185)
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Carrying amount at 30 September 2008	178,743
	<hr/> <hr/>

Investment properties represented parcel of land located in the PRC held for long-term capital appreciation. The land use right of which will expire from year 2046 to 2076 for commercial and residential use respectively.

Investment property was revalued on 30 September 2008 by CB Richard Ellis Limited, an independent firm of professional valuers on an open market, existing use basis and on the assumption that the Group sells the property on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the value.

As at 30 September 2008, the Group's investment properties at the carrying amount of HK\$178,743,000 were pledged to secure banking facilities granted to the Group.

Further particulars of the Group's investment properties are stated below:

Locations	Type	Lot number	Lease term
中國江西省新余市體育中心西側	Commercial/ residential	1-3-708	40 years/ 70 years
中國江西省新余市新欣大道以東 高新大道以北	Commercial	E13-2	40 years

10. OTHER FINANCIAL ASSETS

(a) Available-for-sale financial assets

	As at	
	30 September	31 March
	2008	2008
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Unlisted equity investments outside Hong Kong	284,449	281,427
Listed equity investment in Hong Kong, at fair value (<i>Note</i>)	28,758	78,461
Less: Provision for impairment	—	—
	<u>313,207</u>	<u>359,888</u>

Note: The fair value of these available-for-sale financial assets are determined by the directors of the Company with reference to the valuation performed by CB Richard Ellis Limited, an independent firm of professional valuers. A fair value loss of HK\$49,703,000 occurred during the period was charged to equity.

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

Particulars of the major investment in equity securities as at 30 September 2008 disclosed pursuant to section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment	Principal activities	Particulars of registered capital	Percentage of interest held
China Botanic Development Holdings Ltd. *	Cayman Islands	Production and distribution of snack food and convenience frozen food products and cultivation of seabuckthorn seedlings, manufacturing, sales, research and development of seabuckthorn related health products	691,937,500 shares of HK\$0.01 each	19.22%
上海自來水投資建設有限公司 ("上海自來水")	PRC	Water supply infrastructure	Registered capital of RMB 70,000,000	28.57%
江河農村電氣化發展有限公司 ("江河農電")	PRC	Hydropower plant operation	Registered capital of RMB 399,392,000	45%

* Listed on the Stock Exchange and was pledged to secure the term facility agreement.

Note:

- (i) The investments in 上海自來水 and 江河農電 are not equity accounted for under HKAS "Investments in Associates". This is because the directors are of the opinion that the Group has no participation in the financial and operating policy-making process.

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

	As at	
	30 September	31 March
	2008	2008
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
– Hong Kong	27,002	62,689
– Elsewhere	95,480	233,625
	<hr/> 122,482 <hr/>	<hr/> 296,314 <hr/>

The above equity investments at 30 September 2008 were classified as held for trading.

Note:

The Group has undertaken the following lockup periods in respect of the disposal of its interests in Qian Jiang Water Resources Development Co., Limited (“Qian Jiang”) in carrying amount of HK\$94,179,000 (31 March 2008: HK\$232,858,000), which is listed on the Shanghai Stock Exchange of the PRC (the “SSE”), through the SSE (the “Disposal”):

- (1) no Disposal for a period of twelve months commencing from 27 December 2006 (the “First Lockup Period”); and
- (2) Disposal not exceeding 5% of the total issued shares of Qian Jiang for a period of twelve months after the First Lockup Period and not exceeding 10% of the total issued shares of Qian Jiang for a period of twenty-fourth months after the First Lockup Period.

Except for the matter as disclosed above, the Group’s interests in Qian Jiang are freely transferable following the initial recognition.

11. TRADE AND BILLS RECEIVABLES

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

	As at	
	30 September 2008 (unaudited) <i>HK\$'000</i>	31 March 2008 (audited) <i>HK\$'000</i>
Current to 90 days	127,086	319,981
91 to 180 days	266,814	20,132
Over 180 days	37,948	15,769
	<u>431,848</u>	<u>355,882</u>

The Group has a policy of allowing trade customers with credit normally within 90 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transaction. Overdue balances are reviewed regularly by the Group's management.

As at the balance sheet dates, the Group had no significant balances of trade receivables that were past due but not impaired. The directors of the Company are of the opinion that no further allowance for impairment of trade receivables is necessary as there was no recent history of default in respect of these trade debtors.

12. TRADE PAYABLES

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

	As at	
	30 September 2008 (unaudited) <i>HK\$'000</i>	31 March 2008 (audited) <i>HK\$'000</i>
Current to 90 days	58,595	39,230
91 to 180 days	91,526	121,006
Over 180 days	36,021	4,556
	<u>186,142</u>	<u>164,792</u>

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

13. INVESTMENT IN DEBT SECURITIES

During the year ended 31 March 2008, the Group acquired the convertible bonds issued by CBDH with a principal amount of HK\$180,050,000 (the “China Botanic Convertible Bonds”) as part of the consideration for the disposal of 100% equity interest in CEWHL. The China Botanic Convertible Bonds due on 13 November 2017 is convertible into fully paid ordinary shares of CBDH with a par value of HK\$0.01 each at an initial conversion price of HK\$0.15, subject to adjustment on the occurrence of dilutive or concentrative event. The Group can exercise the conversion at anytime until the maturity date, provided that any conversion of the China Botanic Convertible Bonds does not trigger a mandatory offer obligation under The Hong Kong Code on Takeovers and Mergers. The China Botanic Convertible Bonds can be redeemed at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date. Further details of which have been set out in the Company’s announcement dated 3 July 2007.

The China Botanic Convertible Bonds are separated into two components: the debt element and the conversion options element. The Group has classified the debt element of the China Botanic Convertible Bonds as available-for-sale investment and the conversion options element of the China Botanic Convertible Bonds as derivative financial instruments, which have been presented as the “Investment in debt securities” and “Conversion options embedded in convertible bonds” in the balance sheet respectively. The fair values of the debt element and the conversion options element are determined by the directors of the Company with reference to the valuation performed by CB Richard Ellis Limited, an independent firm of professional valuers.

The carrying value of the debt element and conversion options element of the China Botanic Convertible Bonds are as follows:

	Debt element	Conversion options element	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net carrying amounts at 1 April 2008	132,414	69,824	202,238
Disposal during the period	(17,579)	(9,465)	(27,044)
Change in fair value			
– charged to income statement	–	(17,309)	(17,309)
– charged to equity	(68,418)	–	(68,418)
Net carrying amounts at 30 September 2008	46,417	43,050	89,467

14. CONVERTIBLE NOTES

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

Liability component

	2011	2012	
	Convertible	Convertible	Total
	Bonds (Note a)	Bonds (Note b)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2007	64,900	–	64,900
Net carrying amounts on initial recognition	–	556,554	556,554
Interest expenses	1,138	33,696	34,834
Interest on convertible bonds paid	(478)	–	(478)
Arising from exercise of conversion rights	(65,560)	–	(65,560)
	<hr/>	<hr/>	<hr/>
Net carrying amounts at 31 March 2008 and at 1 April 2008	–	590,250	590,250
Net carrying amounts on initial recognition	–	–	–
Interest expenses	–	27,151	27,151
Interest on convertible bonds paid	–	–	–
Arising from exercise of conversion rights	–	–	–
Redemption by the Company (Note c)	–	(114,836)	(114,836)
	<hr/>	<hr/>	<hr/>
Net carrying amounts at 30 September 2008	–	502,565	502,565
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Equity component

	2011	2012	
	Convertible	Convertible	Total
	Bonds (Note a)	Bonds (Note b)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2007	2,326	–	2,326
Arising from exercise of conversion rights	(2,326)	–	(2,326)
	<u> </u>	<u> </u>	<u> </u>
Net carrying amounts			
at 31 March 2008	<u> </u>	<u> </u>	<u> </u>

Derivative component
– classified as current liabilities

Net carrying amounts on initial recognition	–	81,388	81,388
Change in fair value of derivative financial instruments	–	13,247	13,247
	<u> </u>	<u> </u>	<u> </u>
Net carrying amounts at 31 March 2008 and at 1 April 2008	–	94,635	94,635
Arising from redemption by the Company (note c)	–	(22,008)	(22,008)
Change in fair value of derivative financial instruments	–	23,688	23,688
	<u> </u>	<u> </u>	<u> </u>
Net carrying amounts			
at 30 September 2008	<u> </u>	<u>96,315</u>	<u>96,315</u>

Notes:

- (a) Pursuant to an announcement (the “2006 CB Announcement”) dated 26 June 2006 and information memorandum (the “2006 Information Memorandum”) of the Company dated 30 June 2006, the Company issued HK\$260,000,000 2.5 per cent convertible bonds (the “2011 Convertible Bonds”) at 100% of principal amount to DBS Bank Limited (“DBS”) on 30 June 2006 (the “2006 CB Issue”).
- (b) Pursuant to an announcement (the “2007 CB Announcement”) dated 18 July 2007 and information memorandum (the “2007 Information Memorandum”) of the Company dated 3 August 2007, the Company issued HK\$650,000,000 zero coupon convertible bonds (the “2012 Convertible Bonds”) at 100% of principal amount to DBS on 3 August 2007 (the “2007 CB Issue”).

- (c) During the period, the Company has made early redemption of 2012 Convertible Bonds with total aggregate cash consideration of HK\$89,376,000 (before expenses). As a result, the principal amount of 2012 Convertible Bond reduced from HK\$650,000,000 to HK\$529,200,000. Subsequent to the balance sheet date and up to date of this interim report, the Company has made further early redemption of 2012 Convertible Bonds with total aggregate cash consideration of HK\$130,638,550 (before expenses). As a result, the principal amount of 2012 Convertible Bonds reduced from HK\$529,200,000 at the balance sheet date to HK\$294,900,000 at the date of this interim report.

The fair value of the derivative component of the 2012 Convertible Bonds was calculated using the Binominal model with the major inputs used in the model as follows:

	30 September 2008	31 March 2008
Stock price	HK\$1.33	HK\$2.60
Expected volatility	66.09%	57.55%
Risk free rate	2.41%	1.84%
Expected life	3.8 years	4.3 years
Expected dividend yield	Nil	Nil

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 2008 results in a fair value loss of HK\$23,688,000, which has been included in the “Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)” in the income statement for the period ended 30 September 2008. The early redemption of 2012 Convertible Bonds during the period results in a fair value gain of approximately HK\$47,468,000 which has been included in the “Gain on early redemption of convertible bonds” in the income statement for the period ended 30 September 2008.

Interest expenses are calculated using the effective interest method by apply the effective interest rate of 9.2% to the adjusted liability component.

15. DEFERRED TAX LIABILITIES

Deferred tax liabilities are calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2007: 33%).

The movement on deferred tax liabilities during the period is as follows:

	Fair value adjustments arising from other financial assets <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2008	34,042	79,301	113,343
Credited to income statement (<i>Note 7</i>)	(34,042)	(5,263)	(39,305)
	<hr/>	<hr/>	<hr/>
At 30 September 2008	–	74,038	74,038
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. SHARE CAPITAL

	Number of shares <i>'000</i>	Value <i>HK\$'000</i>
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2008 and 30 September 2007	20,000,000	200,000
	<hr/>	<hr/>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each at 1 April 2007	1,189,834	11,898
Share option exercised	3,270	33
Conversion rights of 2011 Convertible Bonds exercised	33,838	338
Placing and subscription of new shares	14,096	141
Repurchased and cancelled	(1,254)	(12)
	<hr/>	<hr/>
Ordinary shares of HK\$0.01 each at 31 March 2008	1,239,784	12,398
Repurchase of share (<i>Note a</i>)	(10,314)	(103)
	<hr/>	<hr/>
Ordinary shares of HK\$0.01 each at 30 September 2008	1,229,470	12,295
	<hr/> <hr/>	<hr/> <hr/>

During the period ended 30 September 2008, the movements in share capital were as follows:

- (a) During the period ended 30 September 2008, 10,314,000 ordinary shares were repurchased by the Company on the Stock Exchange of Hong Kong Limited. Details of the repurchases are disclosed in Purchase, Sale or Redemption of the Company's Listed Securities of this Interim Report.

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

17. PLEDGE OF ASSETS

- (i) The Group's bank and other loans at 30 September 2008 were secured by:
 - (a) pledge of water revenue of certain subsidiaries;
 - (b) guarantees by You Tao and Lin Hua Dong (being senior management of certain subsidiaries), 江西省水利水電開發總公司, 新余市財政局 and 韶關市丹霞山旅遊投資經營有限公司. The Group has not recognised the financial impact in respect of these guarantees as their fair value cannot be reliably measured and no transaction price was recorded;
 - (c) charges over property, plant and equipment in which their aggregate carrying amount as at 30 September 2008 was HK\$175,592,000 (31 March 2008: HK\$106,602,000);
 - (d) charges over interests in land use rights in which their aggregate carrying amounts as at 30 September 2008 was HK\$259,460,000 (31 March 2008: HK\$3,532,000);
 - (e) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2008 was HK\$135,387,000 (31 March 2008: HK\$138,267,000); and
 - (f) charges over the Group's bank balance in amount of HK\$24,143,000 as at 30 September 2008 (31 March 2008: 35,333,000).
- (ii) On 18 December 2007, the Company entered into a term facility agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft MBH (“DEG”) and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”) for a loan facility of up to US\$36 million (the “Loan Agreement”). The subscription monies for the Warrants shall be satisfied by way of set off of any outstanding amount under the Loan Agreement. The loan facility under the Loan Agreement is secured by (i) shares of certain subsidiaries of the Group; (ii) the Group's equity investment in China Botanic; and (iii) a bank account of the Group (the “Charges”).

In order to satisfy one of the conditions precedent of the Loan Agreement, the Company, the Lenders and China Water Group (HK) Limited (“CWG”), a wholly owned subsidiary of the Company, entered into an Amended and Restated Facility Agreement dated 13 August 2008 (the “Amended Loan Agreement”) to amend the Loan Agreement to the effect that, among others, CWG shall replace the Company as the borrower under the Loan Agreement and the Company shall become a guarantor under the Loan Agreement. In connection with the Amended Loan Agreement, the Company shall issue to DEG and FMO warrant instrument with the right to subscribe for the ordinary shares of the Company at the subscription price of HK\$7 up to USD10.8 million (the “Warrants”).

Under the Amended Loan Agreement, the Group shall repay the loan starting from 15 September 2010 by instalments with the last instalments to be payable on 15 March 2015.

Under the Amended Loan Agreement, the Company, Guarantor, has financial covenants over several aspects which generally concerning (i) the indebtedness as compare with profitability during the period; (ii) the indebtedness as compare with the equity level; (iii) the current ratio analysis; and (iv) debt service coverage ratio analysis with reference to terms and definitions stated in the Amended Loan Agreement.

Under the Amended Loan Agreement, the use of proceeds are solely for the purposes described in certain projects stated in the Amended Loan Agreement which are related to development of water supply business of the Group.

Under the Amended Loan Agreement, the borrower and the Guarantor (the “Obligors”) has undertaking to the Lenders for certain negative pledge over certain aspects which including (i) certain restrictions on certain arrangement or transaction is entered into primarily as a method of raising financial indebtedness or of financing the acquisition of an assets; (ii) certain restrictions on create new charge over its assets of the Obligors. The negative pledge are exempted on certain circumstances as defined in the Amended Loan Agreement.

Under the Amended Loan Agreement, the Guarantor should fulfill certain minimum requirements before make or declare any dividend or other distribution of any financial year of the Guarantor.

Under the Amended Loan Agreement, any events of defaults included but not limited to dissatisfaction in meeting the minimum requirements of financial covenants, non-payment of loan instalments when fall due and insolvency occurred etc. In such events of default happens, any loans outstanding will become immediately due and payable.

18. LITIGATION

As at 30 September 2008, neither the Company nor other members of the Group had any outstanding litigation or arbitration of material importance and the Directors had no knowledge of any pending or threatened litigation or claims of material importance against any member of the Group.

19. RELATED PARTY TRANSACTIONS

The Group has the following material related party transactions:

	Six months ended	
	30 September	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Sale to a minority equity holder of subsidiaries (<i>Note</i>)	—	8,050
	<u> </u>	<u> </u>

Note: The sales represented sale of biological assets to China National Administration Center for Sea Buckthorn Development, a minority equity holder of subsidiaries. The sales were based on mutually agreed terms.

During the period, the Group has acquired 0.54% equity interest of 江河水務有限公司 from Mr. Li Ji Sheng, the executive director of the Company for a cash consideration of RMB1.5 million or approximately HK\$1.66 million.

On 28 March 2008, the Group entered into an agreement for the acquisition of 70% equity interests in 惠州市大亞灣銀龍自來水有限公司 (Huizhou Daya Bay Yinlong Running Water Company Limited), 惠州市大亞灣清源環保有限公司 (Huizhou Daya Bay Qingyuan Environmental Protection Co., Limited) and 惠州市大亞灣溢源淨水有限公司 (Huizhou Daya Bay Riyuan Purified Water Co., Limited). The total consideration is approximately RMB190.1 million (approximately HK\$210.6 million) which was settled in cash. The acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules and has been approved by the independent shareholders of the Company on a special general meeting held on 5 May 2008. The acquisition was completed during the period.

On 15 October 2008, the Company entered into an agreement with Color Hill Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability (the “Vendor”), to acquire 10% of the equity interest in 新余仙女湖新城開發有限公司 (Xinyu Xiannuhu Xincheng Kaifa Company Limited), a sino-foreign joint venture enterprise incorporated in the PRC (the “Target”). The Target is principally engaged in infrastructure construction works in Xinyu City, Jiangxi Province, PRC. The consideration of HK\$24,500,000 which settled by cash are paid by the Company. After completion, the Company will directly hold 40% and indirectly hold another 30% of the equity interest in the Target. The acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules and has been approved by the independent shareholders of the Company on a special general meeting held on 25 November 2008.

20. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

(i) Capital commitments

	As at	
	30 September	31 March
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Contracted, but not provided for		
– Construction in progress	409,778	67,059
– Plant and machinery	10,019	9,799
– Leasehold improvements	116	448
– Water pipelines	187,932	18,623
	<u>607,845</u>	<u>95,929</u>

(ii) Operating lease arrangement

As lessee

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

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

	As at	
	30 September	31 March
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Within one year	6,412	4,912
In the second to fifth year, inclusive	8,374	9,196
After five years	18,830	19,301
	<u>33,616</u>	<u>33,409</u>

As lessor

The Group sub-leases certain of its leased properties under operating lease arrangements for terms ranging from one to five years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the Group and the landlords. None of the leases include contingent rentals.

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

	30 September	As at
	2008	31 March
	(unaudited)	2007
	HK\$'000	(unaudited)
		HK\$'000
Within one year	905	1,271
In the second to fifth years, inclusive	1,036	1,415
	1,941	2,686

(iii) At the balance sheet date, the Group had other commitments amounted to HK\$442,213,000 (31 March 2008: HK\$540,883,000) in respect of its business development and infrastructure projects in the PRC.

(iv) At 30 September 2008, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$386,177,000 (31 March 2008: HK\$240,435,000).

21. CONTINGENT LIABILITIES

As at 30 September 2008 and 2007, the Group had no material contingent liabilities.

22. POST BALANCE SHEET EVENTS

The details of the significant post balance sheet events of the Group are set out below:

On 15 October 2008, the Company entered into an agreement with Color Hill Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability (the “Vendor”), to acquire 10% of the equity interest in 新余仙女湖新城開發有限公司(Xinyu Xiannuhu Xincheng Kaifa Company Limited), a sino-foreign joint venture enterprise incorporated in the PRC (the “Target”). The Target is principally engaged in infrastructure construction works in Xinyu City, Jiangxi Province, PRC. The consideration of HK\$24,500,000 which settled by cash are paid by the Company. After completion, the Company will directly hold 40% and indirectly hold another 30% of the equity interest in the Target. The acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules and has been approved by the independent shareholders of the Company on a special general meeting held on 25 November 2008.

On 17 November 2008, the Company has entered into an underwriting agreement with China Botanic Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange (“China Botanic”), as the underwriter to fully underwrite the offer shares under the open offer subject to the terms and conditions of an underwriting agreement. Assuming that no qualifying shareholders of China Botanic taken up any offer shares, the aggregate number of offer shares to be taken up by the Company shall amount to not less than 345,968,750 offer shares and not more than 404,376,092 offer shares and the aggregate subscription price to be paid by the Company in such event shall amount to a maximum of approximately HK\$32.4 million. As at the date of this interim report, the Group is a shareholder of China Botanic, beneficially holds an aggregate of 133,000,000 shares of China Botanic, the aggregate subscription price to be paid by the Company, assuming no underwritten offer shares to be take up by the Company, is approximately HK\$5.3 million.

Subsequent to the balance sheet date and up to the date of this interim report, the Company has made further early redemption of 2012 Convertible Bonds with total aggregate cash consideration of HK\$130,638,550 (before expenses). As a result, the principal amount of 2012 Convertible Bonds reduced from HK\$529,200,000 at the balance sheet date to HK\$294,900,000 at the date of this interim report.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and business outlook

For the period under review, the Group recorded turnover of approximately HK\$386.0 million (2007: HK\$364.2 million), while net loss attributable to equity holders of the Company amounted to approximately HK\$186.0 million (2007: profit of HK\$211.7 million).

For the period under review, the city water supply revenue (which comprising water supply and installation income) amounted to approximately HK\$248,808,000 for the period ended 30 September 2008 (2007: HK\$200,844,000), representing an increase of 23.9% as compared with corresponding period in 2007. The segments profits from city water supply business for the period ended 30 September 2008 is approximately HK\$63,965,000 (2007: HK\$50,673,000) representing an increase of 26.2% as compared with corresponding period in 2007.

The sewage treatment revenue amounted to approximately HK\$15,459,000 for the period ended 30 September 2008 (2007: HK\$10,086,000), representing an increase of 53.3% as compared with corresponding period in 2007. The segments profits from sewage treatment business for the period ended 30 September 2008 is approximately HK\$4,445,000 (2007: HK\$3,513,000), representing an increase of 26.5% as compared with corresponding period in 2007.

The Group will continue to implement its strategies for development of city water supply business in the PRC. Given the Group's competitive advantages and expertise in water business, friendly government policies that promote development of high quality city water supply business in PRC and the water business is less influenced by capital market and economy downturns, the Company believe that the continuous development of water business are in the best interests of the Company and the shareholders as a whole.

Liquidity and financial resources

As at 30 September 2008, the Group had current assets of approximately HK\$1,791 million (31 March 2008: HK\$1,449 million) and current liabilities of approximately HK\$1,434 million (31 March 2008: HK\$1,101 million). The Group's current ratio is approximately 1.25 times as at 30 September 2008 as compared with approximately 1.32 times as at 31 March 2008. The Group had total assets of approximately HK\$4,836 million (31 March 2008: 4,426 million) and total liabilities of approximately HK\$2,778 million (31 March 2008: HK\$2,200 million) representing a gearing ratio (expressed as total liabilities to total assets) of approximately 57.4% as at 30 September 2008 as compared with approximately 49.7% as at 31 March 2008.

As at the date of the balance sheet, the Group has consolidated cash and cash equivalent of HK\$515,581,000. Out of which of approximately HK\$285,047,000 are placed in bank balances with financial institutions operating in Hong Kong. The remaining balances which denominated in China Renminbi are mostly placed in bank balances by subsidiaries of the Company in the PRC.

On 15 October 2008, the Company entered into an agreement with Color Hill Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability (the "Vendor"), to acquire 10% of the equity interest in 新余仙女湖新城開發有限公司 (Xinyu Xiannuhu Xincheng Kaifa Company Limited), a sino-foreign joint venture enterprise incorporated in the PRC (the "Target"). The Target is principally engaged in infrastructure construction works in Xinyu City, Jiangxi Province, PRC. The consideration of HK\$24,500,000 which settled by cash are paid by the Company. Up to the date of this interim report, the Company has paid approximately HK\$15 million to the vendor.

On 17 November 2008, the Company has entered into an underwriting agreement with China Botanic Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange ("China Botanic"), as the underwriter to fully underwrite the offer shares under the open offer subject to the terms and conditions of an underwriting agreement. Assuming that no qualifying shareholders of China Botanic taken up any offer shares, the aggregate number of offer shares to be taken up by the Company shall amount to not less than 345,968,750 offer shares and not more than 404,376,092 offer shares and the aggregate subscription price to be paid by the Company in such event shall amount to a maximum of approximately HK\$32.4 million. As at the date of this interim report, the Group is a shareholder of China Botanic, beneficially holds an aggregate of 133,000,000 shares of China Botanic, the aggregate subscription price to be paid by the Company, assuming no underwritten offer shares to be take up by the Company, is approximately HK\$5.3 million.

Subsequent to the balance sheet date and up to the date of this interim report, the Company has made further early redemption of 2012 Convertible Bonds with total aggregate cash consideration of HK\$130,638,550 (before expenses). As a result, the principal amount of 2012 Convertible Bonds reduced from HK\$529,200,000 at the balance sheet date to HK\$294,900,000 at the date of this interim report.

Subsequent to the balance sheet date and up to the date of this interim report, the Company has made further repurchase of shares of 22,598,000 of the Company on the Stock Exchange of Hong Kong Limited with aggregate cash consideration (before expenses) of approximately HK\$24,851,000.

On 22 September 2008, the Company and Prime Investments Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange entered into an sell and purchase agreement for disposal of convertible bonds which convertible into shares of China Botanic with a face value of HK\$25,000,000 for cash consideration payable by Prime Investments Holdings Limited of HK\$30,000,000. The transaction was completed and the cash consideration has been fully received before the date of this interim report.

Moreover, in view of the recent financial market uncertainty, the Group have plans to disposal some of the Group's investments that are without controlling interests which including the equity investments in China Water Industry Investment Corporation. The Board of the Company believed that the plan will raising more financial resources for the Group and at the same time have no negative impact on the revenue and size of operation of water business as the profit and loss account of such investments are not being consolidated in the Group's financial statements.

In light of the financial measures taken to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

Employees and remuneration policies

As at 30 September 2008, the Group had approximately 4,100 full-time employees. Most of them station in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

SHARE OPTION SCHEMES

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

Name or category of participant	Number of share options				At 30 September 2008	Date of grant of share options	Exercise period of share options	Exercise price of share options (HK\$) (Note a)
	At 1 April 2008	Granted during the period	Exercised during the period	Lapsed during the period				
Directors								
Mr. Duan Chuan Liang (Note b)	50,000,000	-	-	-	50,000,000	2 February 2007	Period 3	3.60
Mr. Li Ji Sheng	1,000,000	-	-	-	1,000,000	10 August 2007	Period 5	4.58
Mr. Wu Jiesi	6,000,000	-	-	-	6,000,000	29 March 2006	Period 1	1.45
	1,000,000	-	-	-	1,000,000	10 August 2007	Period 5	4.58
	7,000,000	-	-	-	7,000,000			
Mr. Chen Guo Ru	500,000	-	-	-	500,000	10 August 2007	Period 5	4.58
Mr. Zhou Wen Zhi	500,000	-	-	-	500,000	10 August 2007	Period 5	4.58
Mr. Zhao Hai Hu	800,000	-	-	-	800,000	10 August 2007	Period 5	4.58
Other employees								
In aggregate	2,300,000	-	-	-	2,300,000	17 March 2006	Period 2	1.16
	1,000,000	-	-	-	1,000,000	29 March 2006	Period 1	1.45
	21,900,000	-	-	-	21,900,000	30 April 2007	Period 4	4.35
	25,200,000	-	-	-	25,200,000			
Suppliers/Advisors								
In aggregate	9,500,000	-	-	-	9,500,000	30 April 2007	Period 4	4.35
	94,500,000	-	-	-	94,500,000			

Notes:

Period 1	29 March 2006 to 28 March 2011
Period 2	17 March 2006 to 16 March 2011
Period 3	2 April 2007 to 1 April 2009
Period 4	30%, 30%, 30%, 10% were exercisable on 30 April 2007 to 29 April 2009, 30 October 2007 to 29 April 2009, 30 April 2008 to 29 April 2009 and 30 October 2008 to 29 April 2009, respectively.
Period 5	30%, 30%, 30%, 10% were exercisable on 10 August 2007 to 9 August 2009, 10 February 2008 to 9 August 2009, 10 August 2008 to 9 August 2009 and 10 February 2009 to 9 August 2009, respectively.

- (a) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (b) The number of share options granted to Mr. Duan Chuan Liang on 2 February 2007 exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company by poll at the special general meeting held on 8 May 2007.

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 2008, except for certain deviations as follows:

Code Provision A.4.2

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

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for the Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by its directors. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2008.

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

During the six months ended 30 September 2008, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares repurchased	Highest price per share <i>HK\$</i>	Lowest price per share <i>HK\$</i>	Aggregate consideration (excluding expenses) <i>HK\$</i>
September 2008	10,314,000	1.38	1.17	13,617,180

The shares repurchased during the period were cancelled in September 2008 and accordingly, the issued share capital of the Company was diminished 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.

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

The Audit Committee comprises the four independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed accounts for the six months ended 30 September 2008 with the directors.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

The interim report of the Company, which will contain all the information required by the Listing Rules, will be sent to shareholders and published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinawatergroup.com).

On behalf of the Board
Duan Chuan Liang
Chairman

Hong Kong, 30 December 2008

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.