



中國水務集團有限公司*

China Water Affairs Group Limited

Stock code : 855



Interim Report **2008/09**



* For identification purposes only

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)

Mr. Li Ji Sheng

Non-executive

Mr. Zhao Hai Hu

Mr. Chen Guo Ru

Mr. Zhou Wen Zhi

Mr. Wu Jiesi

Independent Non-executive

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Chau Kam Wing

Mr. Ong King Keung

AUDIT COMMITTEE

Mr. Chau Kam Wing

(*Chairman of committee*)

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Ong King Keung

REMUNERATION COMMITTEE

Mr. Chau Kam Wing

(*Chairman of committee*)

Ms. Huang Shao Yun

Ms. Liu Dong

Mr. Ong King Keung

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 6408, 64/F

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited

26th Floor, Tesbury Centre,

28 Queen's Road East

Wanchai, Hong Kong

LEGAL ADVISERS

As to Bermuda law

Conyers Dill & Pearman

AUDITORS

Grant Thornton

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

STOCK CODE

855

WEBSITE

www.chinawatergroup.com

The board of directors (the "Board") of China Water Affairs Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2008, together with the comparative figures for the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September	
		2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000 (restated)
Continuing operations			
Revenue	4	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

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

		Six months ended 30 September		
		2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000 (restated)	
Notes				
Discontinued operation				
	Profit for the period from a discontinued operation	8	–	7,871
	Profit/(Loss) for the period	(171,642)	282,359	
Attributable to:				
	Equity holders of the Company	(185,974)	211,726	
	Minority interests	14,332	70,633	
	Profit/(Loss) for the period	(171,642)	282,359	
Earnings (Loss) per share attributable to equity holders of the Company during the period				
	Basic	9	HK cents	HK cents
	– For profit/(Loss) for the period		(15.14)	17.36
	– For profit from continuing operations		(15.14)	17.05
	Diluted		N/A	16.29
	– For profit for the period		N/A	15.99
	– For profit from continuing operations		N/A	15.99

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	10	1,873,268	1,304,053
Prepaid land lease payments		214,123	192,152
Investment properties	11	178,743	276,978
Interests in associates		103,407	99,088
Interest in a joint venture	12	4,072	–
Investment in debt securities	20	46,417	132,414
Other financial assets	13	313,207	359,888
Goodwill	14	142,390	103,634
Other intangible assets		142,529	145,502
Deposits	15	26,793	364,168
		3,044,949	2,977,877
Current assets			
Properties under development	16	113,799	21,747
Investment held for sale	15	141,444	–
Inventories		72,543	39,596
Trade receivables	17	431,848	355,882
Other financial assets	13	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	20, 21	43,050	69,824
Pledged deposit		24,143	35,333
Cash and cash equivalents		515,581	422,773
		1,791,287	1,448,555

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		As at	
	Notes	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
Current liabilities			
Trade payables	19	186,142	164,792
Construction contracts	18	40,704	20,668
Accrued liabilities, deposits received and other payables		466,577	340,965
Borrowings	22, 26	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	23	97,840	94,635
		1,433,636	1,100,560
Net current assets			
		357,651	347,995
Total assets less current liabilities			
		3,402,600	3,325,872
Non-current liabilities			
Borrowings	22, 26	753,690	381,417
Deferred government grants		13,879	14,518
Convertible bonds	23	502,565	590,250
Deferred tax liabilities	24	74,038	113,343
		1,344,172	1,099,528
Net assets			
		2,058,428	2,226,344
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	25	12,295	12,398
Reserves		1,438,003	1,745,186
		1,450,298	1,757,584
Minority interests			
		608,130	468,760
Total equity			
		2,058,428	2,226,344

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2008 (unaudited) HK\$'000	2007 (unaudited) 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
Increase in cash and cash equivalents	92,808	354,157
Cash and cash equivalents at beginning of period	422,773	520,281
Cash and cash equivalents at end of period	515,581	874,438
Analysis of balances of cash and cash equivalents		
Bank and cash balances	515,581	874,438

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													

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company												
	Share capital (unaudited)	Share premium account (unaudited)	Contributed surplus (unaudited)	Capital redemption reserve (unaudited)	Exchange fluctuation reserve (unaudited)	Share option reserve (unaudited)	Convertible bond equity reserve (unaudited)	Other reserve (unaudited)	Statutory reserve (unaudited)	Accumulated losses (unaudited)	Total (unaudited)	Minority interests (unaudited)	Total equity (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.

For the financial period ended 30 September 2007

	Continuing operations					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	Total 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	204,865	10,912	16,215	93,000	44,084	369,076	18,864	387,940
Segment results	50,673	3,513	1,643	41,636	234	97,699	8,834	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								282,359

(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		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
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 operation**

(Loss)/Profit from operation is arrived at after charging:

	Continuing operations		Group Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000	2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000	2008 (unaudited) HK\$'000	2007 (unaudited) 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

6. **Finance costs**

	Group Continuing operations	
	2008 (unaudited) HK\$'000	2007 (unaudited) 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 (note 24)						
– 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. Profit for the period from a discontinued operation

During the year ended 31 March 2008, the Group disposed of 100% equity interest in China Environmental Water Holdings Limited ("CEWHL") to China Botanic Development Holdings Ltd. ("CBDH") (formerly known as "Wah Yuen Holdings Limited"), a company listed on the main board of the Stock Exchange for an aggregate consideration of HK\$200,000,000. The consideration is satisfied by CBDH issuing (i) 133,000,000 ordinary shares for HK\$0.15 each (note 13(a)), (ii) the convertible notes in the principal amount of HK\$180,050,000 (note 20), and (iii) waiver of amounts due from CEWHL and its subsidiaries by the Group of HK\$19,258,000. CEWHL is an investment holding company which held 50% equity interest in 高原聖果沙棘制品有限公司. 高原聖果沙棘制品有限公司 and its subsidiaries are principally engaged in cultivation, manufacture and sale of sea buckthorn seedlings and sea buckthorn based products.

An analysis of the results of the discontinued operation included in the condensed consolidated income statement are as follows:

	Six months ended 30 September	
	2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000
Profit for the period from a discontinued operation		
Revenue	-	10,710
Cost of sales	-	(3,650)
Gross profit	-	7,060
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	-	8,050
Other income	-	104
Selling and distribution costs	-	(1,358)
Administrative expenses	-	(5,022)
Profit before income tax	-	8,834
Income tax expense	-	(963)
Profit for the period from a discontinued operation	-	7,871

9. 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 (unaudited) HK\$'000	2007 (unaudited) 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
Profit attributable to equity holders of the Company from the discontinued operation	–	(3,920)
Profit/(Loss) attributable to equity holders of the Company from the continuing operations	(185,974)	207,806

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.

10. Property, plant and equipment

During the year ended 31 March 2008, the Group entered into an agreement for the acquisition of 70% equity interests in 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 acquisition was completed during the period. The net book amount of the property, plant and equipment of the above non wholly-owned subsidiaries which being consolidated is approximately HK\$435.2 million as at 30 September 2008.

11. Investment properties

	HK\$'000
Carrying amount at 1 April 2008	276,978
Additions	–
Valuation surplus/(deficiency)	(21,050)
Transfer to properties under development (<i>note 16</i>)	(77,185)
	<hr/>
Carrying amount at 30 September 2008	178,743
	<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

12. Interest in a joint venture

During the period, the Company, Kolon Industries, Inc., a corporation organized and existing under the laws of the Republic of Korea ("Kolon Industries") and Kolon Engineering & Construction CO., Ltd, a corporation organized and existing under the laws of the Republic of Korea ("Kolon E&C") have formed a joint venture with paid-up capital of the joint venture of HK\$8 million. The purpose of formation of the joint venture is to develop a long term co-operative relationship in the area of water business in the PRC and take advantage in combining their technical and marketing expertise, capabilities, knowledge and experience in addressing the water business in the PRC. The Company has 51% interests in the joint venture and the investments have been equity accounting for in the condensed consolidated financial statements.

13. Other financial assets

(a) Available-for-sale financial assets

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

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 as detailed in note 26(ii).

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

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.

14. GOODWILL

The amount of the goodwill capitalised as an asset recognised in the consolidated balance sheet, arising from business combinations, is as follows:

	As at	
	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
At beginning of the year/period		
Gross carrying amount	103,634	80,350
Accumulated impairment	–	–
Net carrying amount	103,634	80,350
For the year/period ended		
Net carrying amount at beginning of year/period	103,634	80,350
Acquisition of subsidiaries	38,756	14,751
Exchange realignment	–	8,533
Net carrying amount at end of year/period	142,390	103,634
At the year/period ended		
Gross carrying amount	142,390	103,634
Accumulated impairment	–	–
Net carrying amount	142,390	103,634

15. Deposits

		As at	
		30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
		<i>Notes</i>	
Deposits for acquisition of equity instruments	(i)	137	289,031
Other deposits		26,656	75,137
		26,793	364,168

Notes:

- (i) As at 31 March 2008, the deposits for acquisition of equity instruments amounted to HK\$289,031,000 mainly comprised the followings:
- (a) The amount of HK\$141,444,000 represented the deposits paid by the Company in relation to the acquisition of 19.375% equity interest in China Water Industry Investment Corporation which is a company established in the PRC and principally engaged in the investment, operation, management and related value added services in raw water supply, exploitation, cross-region water transfer, urban water supply and waste water treatment as well as desalination of brackish water in the PRC. Further details of which has been set out in the Company's announcement dated 30 October 2007. As at 30 September 2008, the amount has been reclassified under "Investment held for sale" as the Board consider to dispose the entire equity interest in China Water Industry Investment Corporation in short term.
- (b) The amount of HK\$147,450,000 represented the deposits paid by the Group in relation to the acquisition of 70% equity interest in each of 惠州大亞灣銀龍自來水有限公司, 惠州大亞灣清源環保有限公司 and 惠州大亞灣溢源淨水有限公司 (collectively referred to as "Huizhou Daya Bay Companies") which are the companies established in the PRC and principally engaged in water supply, water supply infrastructure business and sewage treatment in the PRC. Upon completion of this acquisition, the Group would have effective equity interest of 49% in each of Huizhou Daya Bay Companies. As the vendor, namely 惠州市投資管理有限公司, is a minority equity holder of a subsidiary of the Company, the acquisition is a related party transaction and connected transaction as defined in the Listing Rules. Further details of which has been set out in the Company's announcement dated 28 March 2008. The acquisition of these companies has been completed during the period.
- (c) The amount of HK\$137,000 represented the deposits paid by the Group in relation to the acquisition of 49% equity interest in 梧州粵海江河水務有限公司 ("梧州粵海江河水務") which is a company established in the PRC and principally engaged in water supply and water supply infrastructure business in the PRC. Upon completion of this acquisition, the Group would have effective interest of approximately 49% in 梧州粵海江河水務.

16. PROPERTIES UNDER DEVELOPMENT

	As at	
	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
At Cost		
At beginning of the year/period	21,747	7,650
Additions	14,867	13,271
Transfer from investment properties (Note 11)	77,185	–
Exchange realignment	–	826
At the end of the year/period	113,799	21,747

The Group's properties under development are located in the PRC on leasehold land with lease terms expiring from year 2046 to 2076.

As at 30 September 2008, the land use right which was transferred from investment properties of HK\$77,185,000 were pledged to secure banking facilities granted to the Group.

17. Trade receivables

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

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

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.

18. Construction contracts

	As at	
	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
Contract cost incurred plus recognised profits less recognised losses	338,213	281,918
Less: Progress billings	(378,917)	(302,586)
	(40,704)	(20,668)
Representing:		
Amounts due to customers for contract work	(40,704)	(20,668)
Contract revenue recognised as revenue in the period/year	56,295	281,918

In respect of construction contracts in progress at the balance sheet date, the amount of receivables from customers, included in "Trade receivables", is HK\$293,564,000 (31 March 2008: 237,269,000). In addition, performance deposits paid to the customers, included in "Prepayments, deposits and other receivables", is HK\$23,266,000 (31 March 2008: HK\$23,266,000).

19. Trade payables

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

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

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

20. 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 (note 21). 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
	HK\$'000	HK\$'000	HK\$'000
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

21. Conversion options embedded in convertible bonds

	As at	
	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
Unlisted conversion options embedded in convertible bonds, at fair value	43,050	69,824

As at 30 September 2008, convertible options embedded in convertible bonds represent the conversion options element of the China Botanic Convertible Bonds held by the Group (*note 20*).

The fair value of the conversion options element of the China Botanic 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\$0.26	HK\$0.63
Expected volatility	83.50%	76.89%
Risk free rate	2.901%	2.584%
Expected dividend yield	Nil	Nil

Any changes in the major inputs into the model will result in changes in the fair value of the conversion options element of the China Botanic Convertible Bonds. The change in the fair value of the conversion options element of the China Botanic Convertible Bonds during the period ended 30 September 2008 result in a fair value loss of HK\$17,309,000, which has been included in the "Change in fair value of derivative financial instruments (including conversion options embedded in convertible bonds)" in the condensed consolidated income statement for the period ended 30 September 2008.

22. BORROWINGS

			As at	
	Notes	Original currency	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
Current				
Bank loans – unsecured	26a(i)	RMB	–	3,601
Bank loans – secured	26a(i)	RMB	134,545	83,813
Other loans – unsecured	26a(i)	RMB	33,237	28,394
Other loans – secured	26a(i)	RMB	68,640	11,833
Government loans – unsecured		RMB	49,565	54,251
			285,987	181,892
Non-current				
Bank loans – unsecured	26a(i)	RMB	368,698	316,417
Bank loans – secured	26a(i)	RMB	44,316	–
Bank loans – secured	26a(ii)	USD	279,000	–
Other loans – unsecured	26a(i)	RMB	–	2,393
Other loans – secured	26a(i)	RMB	13,472	11,079
Government loans – unsecured		RMB	48,204	51,528
			753,690	381,417
			1,039,677	563,309

23. Convertible notes

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

Liability component

	2011 Convertible Bonds (note a)	2012 Convertible Bonds (note b)	Total
	HK\$'000	HK\$'000	HK\$'000
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)
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)
Net carrying amounts at 30 September 2008	–	502,565	502,565

Equity component

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

**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
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
Net carrying amounts at 30 September 2008	–	96,315	96,315

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").

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

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

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

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

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

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

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

The Group determined that the Conversion Price Reset will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company's shares. In accordance with the requirement of HKAS 32, the bond contract is separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element. The compound derivative component is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the income statement in the period when the change occurs.

- (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.

24. 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	Revaluation of properties	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	34,042	79,301	113,343
Credited to income statement (<i>note 7</i>)	<u>(34,042)</u>	<u>(5,263)</u>	<u>(39,305)</u>
At 30 September 2008	<u>–</u>	<u>74,038</u>	<u>74,038</u>

25. Share capital

	Number of shares	Value
	'000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2008 and 30 September 2007	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
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	<u>(1,254)</u>	<u>(12)</u>
Ordinary shares of HK\$0.01 each at 31 March 2008	1,239,784	12,398
Repurchase of share (<i>note a</i>)	<u>(10,314)</u>	<u>(103)</u>
Ordinary shares of HK\$0.01 each at 30 September 2008	<u>1,229,470</u>	<u>12,295</u>

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.

26. 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.

27. 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.

28. 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

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.

29. Commitments

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

(i) Capital commitments

	As at	
	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) 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
	607,845	95,929

(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 2008 (unaudited) HK\$'000	31 March 2008 (audited) 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
	33,616	33,409

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:

	As at	
	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) 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).

30. Contingent liabilities

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

31. 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2008, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the securities and Futures Ordinance (the "SFO") (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(a) Shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (Note)	Corporate and beneficial	160,276,301	–	13.03%
Mr. Chen Guo Ru	Beneficial	1,370,000	–	0.11%
Mr. Zhao Hai Hu	Beneficial	1,900,000	–	0.15%
Mr. Zhou Wen Zhi	Beneficial	870,000	–	0.07%

Note: These 145,682,301 shares consists of 112,336,301 shares held by Asset Full Resources Limited and 100,000 shares held by Tat Chi International Inc., both of which are companies wholly and beneficially owned by Mr. Duan Chuan Liang, and 47,840,000 shares held by Mr. Duan Chuan Liang personally.

(b) Underlying shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang	Beneficial	50,000,000	–	4.07%
Mr. Wu Jiesi	Beneficial	7,000,000	–	0.57%
Mr. Zhou Wen Zhi	Beneficial	500,000	–	0.04%
Mr. Li Ji Sheng	Beneficial	1,000,000	–	0.08%
Mr. Chen Guo Ru	Beneficial	500,000	–	0.04%
Mr. Zhao Hai Hu	Beneficial	800,000	–	0.06%

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

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.

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

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

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company	
		Long position	Short position	Long position	Short position
Asset Full Resources Limited (Note)	Corporate	112,336,301	–	9.14%	–
Atlantis Investment Management Limited	Corporate	297,948,000	–	24.23%	–
JP Morgan Chase & Co.	Corporate	73,454,289	504,000	5.97%	0.04%

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

Save as disclosed above, as at 30 September 2008, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 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 HK\$	Lowest price per share HK\$	Aggregate consideration (excluding expenses) HK\$
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.

On behalf of the Board
Duan Chuan Liang
Chairman

Hong Kong, 30 December 2008

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