



INTERIM REPORT 2007



中國水務集團有限公司

China Water Affairs Group Limited

Stock Code:855



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Mr. Duan Chuan Liang (*Chairman*)
Mr. Li Ji Sheng

Non-executive

Mr. Zhao Hai Hu
Mr. Chen Guo Ru
Mr. Zhou Wen Zhi
Mr. Wu Jiesi

Independent Non-executive

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tam Chun Yip

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang
Mr. Tam Chun Yip

REGISTERED OFFICE

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2 Church Street
Hamilton HM11
Bermuda

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Wanchai
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HONG KONG BRANCH SHARE REGISTRAR

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26th Floor, Tesbury Centre,
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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 2007, together with the comparative figures for the corresponding period in 2006, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 September	
		2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Revenue	3	374,939	61,702
Cost of sales		(226,254)	(28,087)
Gross profit		148,685	33,615
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs		8,050	6,164
Valuation surplus on investment properties		91,310	–
Other income	4	294,568	22,014
Selling and distribution costs		(12,902)	(4,605)
Administrative expenses		(68,896)	(19,025)
Equity-settled share option expenses		(39,989)	–
Net unrealised loss on financial assets at fair value through profit or loss		–	(3,221)
PROFIT FROM OPERATING ACTIVITIES	5	420,826	34,942
Finance costs	6	(18,952)	(7,780)
PROFIT BEFORE TAXATION		401,874	27,162
INCOME TAX EXPENSE	7	(119,515)	(1,180)
PROFIT FOR THE PERIOD		282,359	25,982
Attributable to:			
Equity holders of the Company		211,726	15,006
Minority interests		70,633	10,976
PROFIT FOR THE PERIOD		282,359	25,982
EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD	8		
Basic		HK17.36 cents	HK1.75 cents
Diluted		HK16.29 cents	HK1.68 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	Notes	30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,598,016	715,372
Prepaid land lease payments		126,396	105,314
Investment properties	9	242,000	139,000
Interest in associates		-	975
Other financial assets	10	24,680	41,506
Goodwill		80,350	80,350
Other intangible assets		134,984	130,000
Deposits	11	98,973	131,811
		2,305,399	1,344,328
Current assets			
Properties under development		6,186	7,650
Completed properties held for sale		-	-
Biological assets		-	-
Inventories		44,020	18,117
Trade and bills receivable	12	153,431	23,476
Other financial assets	10	540,537	228,975
Due from minority equity holders of subsidiaries		8,385	6,573
Due from former subsidiaries		5,619	8,054
Due from associates		-	10,128
Prepayments, deposits and other receivables		227,908	91,614
Bank balance held in escrow		-	94
Bank and cash balances		874,438	520,281
		1,860,524	914,962
Current liabilities			
Trade payables	13	82,107	30,903
Accrued liabilities, deposits received and other payables		315,095	197,841
Bank loans		197,061	67,660
Other loans		129,497	15,888
Government loans		11,430	45,687
Due to a director		-	5,652
Due to minority equity holders of subsidiaries		285,506	185,761
Provision for tax		17,754	6,480
		1,038,450	555,872
Net current assets		822,074	359,090
Total assets less current liabilities		3,127,473	1,703,418

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Notes	As at	
		30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
Non-current liabilities			
Deferred government grants		11,856	11,856
Bank loans		371,464	236,420
Other loans		17,630	15,610
Government loans		41,637	47,390
Convertible bonds	14	636,282	64,900
Deferred tax liabilities	15	141,432	42,945
		1,220,301	419,121
Net assets			
		1,907,172	1,284,297
Equity			
Equity attributable to equity holders of the Company			
Share capital	16	12,368	11,898
Reserves		1,395,532	1,032,301
		1,407,900	1,044,199
Minority interests			
		499,272	240,098
Total equity			
		1,907,172	1,284,297

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2007	2006
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	41,879	6,586
Net cash outflow from investing activities	(359,802)	(87,719)
Net cash inflow from financing activities	672,080	267,158
Increase in cash and cash equivalents	354,157	186,025
Cash and cash equivalents at beginning of period	520,281	235,036
Cash and cash equivalents at end of period	874,438	421,061
Analysis of balances of cash and cash equivalents		
Bank and cash balances	874,438	421,061



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Share	Share	Capital	Exchange	Share	Convertible	Other	Statutory	Accumulated	Total	Minority	Total	
	capital	premium	Contributed	redemption	fluctuation	option							bond equity
	(unaudited)	(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	
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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the Company											
	Issued capital (unaudited)	Share premium account (unaudited)	Capital reserve (unaudited)	Contributed surplus (unaudited)	Property, Plant and equipment	Exchange fluctuation reserve (unaudited)	Share option reserves (unaudited)	Convertible notes reserves (unaudited)	Accumulated losses (unaudited)	Total (unaudited)	Minority interests (unaudited)	Total equity (unaudited)
					revaluation reserve (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	
At 1 April 2006	8,298	306,801	340	70,725	-	(3,598)	26,242	-	(167,478)	241,330	97,859	339,189
Share options exercised	742	55,425	-	-	-	-	-	-	-	56,167	-	56,167
Return of capital contributed by minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	(19,121)	(19,121)
Convertible notes-equity components	-	-	-	-	-	-	-	9,774	-	9,774	-	9,774
Net profit for the period	-	-	-	-	-	-	-	-	15,006	15,006	10,976	25,982
At 30 September 2006	9,040	362,226	340	70,725	-	(3,598)	26,242	9,774	(152,472)	322,277	89,714	411,991



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 condensed financial statements have been prepared under the historical cost basis except for investment properties, biological assets and financial assets at fair value through profit or loss, which are measured at fair values. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

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

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The Directors are in the process of assessing the potential impact and expect that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are classified as follows:

- (a) "Water" segment, which is presented as "city water supply" and "sewage treatment" segment, involves the provision of water supply and sewage treatment;
- (b) "Property development and investment" segment involves development of properties for sale and investment in property for capital appreciation;
- (c) "City infrastructure" segment involves construction of city infrastructure such as roads;
- (d) "Sea buckthorn related business" segment involves cultivation, manufacture and sale of sea buckthorn seedling and sea buckthorn based products; and
- (e) "Concrete products and others" segment involves manufacture and sale of concrete products and others.

(a) Business segments

The following table presents revenue and result for the Group's business segments:

	City water supply		Sewage treatment		Property development and investment		City infrastructure		Sea buckthorn related business		Concrete products and others		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September		30 September		30 September		30 September	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(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	HK\$'000	HK\$'000
Segment revenue:														
External customers	143,028	18,258	10,086	-	16,215	-	93,000	-	10,710	4,712	44,084	19,564	317,123	42,534
Installation income	57,816	19,168	-	-	-	-	-	-	-	-	-	-	57,816	19,168
Revenue	200,844	37,426	10,086	-	16,215	-	93,000	-	10,710	4,712	44,084	19,564	374,939	61,702
Other income	4,021	3,610	826	-	-	-	-	-	8,154	6,164	-	-	13,001	9,774
Total	204,865	41,036	10,912	-	16,215	-	93,000	-	18,864	10,876	44,084	19,564	387,940	71,476
Segment results	50,673	10,989	3,513	-	1,643	-	41,636	-	8,834	6,773	234	5,160	106,533	22,922
Interest income													5,251	4,441
Unallocated corporate income													284,366	13,963
Unallocated corporate expense													(66,634)	(6,384)
Valuation surplus on investment properties					91,310								91,310	-
Profit from operation													420,826	34,942
Finance costs													(18,952)	(7,780)
Profit before income tax													401,874	27,162
Income tax expense													(119,515)	(1,180)
Profit for the period													282,359	25,982

(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 2007 and 2006 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:

	Six months ended 30 September	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Revenue:		
Sales of goods	10,710	4,712
Water supply	143,028	18,258
Water supply related installation and construction revenue	57,816	19,168
Sewage treatment	10,086	–
Concrete products and others	44,084	19,564
City infrastructure	93,000	–
Property development and investment	16,215	–
	<u>374,939</u>	<u>61,702</u>
Other income:		
Interest income	5,251	4,441
Fair value gain on financial assets at fair value through profit or loss	262,450	13,808
Dividend income	4,664	–
Miscellaneous income	22,203	3,765
	<u>294,568</u>	<u>22,014</u>

5. Profit from operating activities

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

	Six months ended 30 September	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Cost of inventories sold and services rendered	175,054	28,087
Depreciation	32,834	4,004
Amortisation of prepaid land lease payments	2,024	78
Amortisation of other intangible assets	2,705	–
Interest income	(5,251)	(4,441)

6. Finance costs

	Six months ended 30 September	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Interest on bank loans	10,115	281
Interest on other borrowings	5,764	1,357
Interest on convertible notes	7,225	6,083
Interest on finance leases	–	59
	<hr/>	<hr/>
Total borrowing costs	23,104	7,780
Less: interest capitalised included in property, plant and equipment	(4,152)	–
	<hr/>	<hr/>
	18,952	7,780
	<hr/> <hr/>	<hr/> <hr/>

7. Income tax

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 (2006: Nil).

	Six months ended 30 September	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Current period		
Hong Kong profits tax	–	–
Overseas taxation	21,028	1,180
Deferred (<i>note 15</i>)	98,487	–
	<hr/>	<hr/>
	119,515	1,180
	<hr/> <hr/>	<hr/> <hr/>

8. Earning per share attributable to equity shareholders of the Company

The calculation of basic earnings per share for the six months ended 30 September 2007 is based on the profit attributable to equity holders of the Company of HK\$211,726,000 (2006: HK\$15,006,000) and on the weighted average of 1,219,135,778 shares (2006: 856,375,097 shares) in issue during the period.

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 and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the equity holders of the Company for the period ended 30 September 2007 is based on the profit attributable to the equity holders of the Company of HK\$211,726,000 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 issued of 80,542,131.

In the calculation of the diluted earnings per share attributable to the equity holders of the Company for the period ended 30 September 2006, 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 and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the equity holders of the Company for the period ended 30 September 2006 is based on the profit attributable to the equity holders of the Company of HK\$15,006,000 and on the weighted average of 891,359,474 ordinary shares outstanding during the period, being the weighted average number of ordinary shares of 856,375,097 used in basic earnings per share calculation and adjusted for the effect of share options issued of 34,984,377.

9. Investment properties

	HK\$'000
Carrying amount at 1 April 2007	139,000
Additions	11,690
Valuation surplus	91,310
Carrying amount at 30 September 2007	242,000

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 2007 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.

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 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
Unlisted equity investments outside Hong Kong	9,680	41,506
Listed equity investment in Hong Kong	15,000	—
Less: Provision for impairment	—	—
	24,680	41,506

Particulars of the major investment in listed equity securities as at 30 September 2007, disclosed pursuant to section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment	Principal activities	Particulars of issued shares held	Percentage of interest held
Prime Investments Holdings Limited (Stock Code: 721)	Incorporated in the Cayman Islands and continued in Bermuda	Investment holding company engaging in the holding of equity or equity-related investments and provision of management services to the investee companies	68,181,818 shares of HK\$0.01 each	17.25%

- (i) Prime Investments Holdings Limited is an investment holding company under Chapter 21 of the Listing Rules and listed on the main board of the Stock Exchange.

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

	As at	
	30 September	31 March
	2007	2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
– Hong Kong		
– directly	2,740	5,835
– indirectly	107,520	–
	110,260	5,835
– Elsewhere	430,277	223,140
	540,537	228,975

The above equity investments at 30 September 2007 were classified as held for trading.

Particulars of the investment in listed equity securities as at 30 September 2007, disclosed pursuant to section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment	Principal activities	Particulars of issued shares held	Percentage of interest held
Qian Jiang Water Resources Development Co., Limited* ("Qian Jiang")	PRC	Water supply and property investment	32,365,326 shares of RMB0.1 each	11.34%
Ming Hing Holdings Limited* (stock Code: 402)	Cayman Islands	Water works engineering services, road works and drainage services and slope upgrading services for the public sector in Hong Kong	128,000,000 shares of HK\$0.05 each	13.78%

* Listed on the Shanghai Stock Exchange of the PRC (the "SSE")

* Listed on the Stock Exchange

The Group has undertaken the following lockup periods in respect of the disposal of its interests in Qian Jiang 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-four months after the First Lockup Period.

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

The Group has undertaken the following lockup period in respect of the disposal of its interests in Ming Hing Holdings Limited:

- (1) not to disposal of 90% of the shares, representing 115,200,000 shares of Ming Hing Holdings Limited, within 180 days for the date of completion of the subscription agreement dated 13 April 2007.

11. Deposits

		As at	
	<i>Notes</i>	30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
Deposits for acquisition of equity instruments	(i)	79,850	106,368
Other deposits	(ii)	19,123	25,443
		98,973	131,811

Notes:

- (i) As at 30 September 2007, the deposits for acquisition of equity instruments amounted to HK\$79,850,000 mainly comprised the followings:
 - (a) The amount of HK\$20,000,000 represented the deposit paid by the Group for the establishment of the equity joint venture, 江河農村電氣化發展有限公司("江河農村").

- (b) The amount of HK\$20,000,000 represented the deposit paid by the Group in relation to the acquisition of 28.57% equity interest in 上海自來水投資建設有限公司 (“上海自來水”) which is a company incorporated in the PRC and principally engaged in the provision of management and engineering services for water supply and sewage treatment construction projects and related technical services principally in Shanghai City, the PRC.
- (c) The amount of HK\$23,350,000 represented the deposit paid by the Group for the establishment of an equity joint venture in the PRC which will be principally engaged in water supply, sewage treatment, related installation and water related business in Huizhou City, Guangdong Province, the PRC. Further details of which are disclosed in the Company's circular dated 21 May 2007.
- (d) The amount of HK\$15,500,000 represented the deposit paid by the Group for the acquisition of equity interest of a company in the PRC which engaging in the manufacture of water meters in Wannian County, Jiangxi Province, the PRC.
- (e) The amount of HK\$1,000,000 represented the deposit paid by the Group for the acquisition of equity interest of a company in the PRC which engaging in the manufacture of water meters in Jingzhou City, Hubei Province, the PRC.
- (ii) The amount consisted of deposits of HK\$19,123,000 paid for acquisition of land use rights for the Group's business expansion.

12. Trade and bills receivables

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

	30 September 2007 (unaudited) HK\$'000	As at 31 March 2007 (audited) HK\$'000
Current to 90 days	123,380	12,379
91 to 180 days	17,573	5,306
Over 180 days	12,478	5,791
	153,431	23,476

The Group has a policy of allowing trade customers with credit normally ranged from 30 to 90 days.

13. Trade payables

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

	30 September 2007 (unaudited) HK\$'000	As at 31 March 2007 (audited) HK\$'000
Current to 90 days	46,768	19,196
91 to 180 days	23,618	1,746
Over 180 days	11,721	9,961
	82,107	30,903

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

14. Convertible notes

The convertible bonds recognised in the balance sheet were calculated as follows:

	Liability component HK\$'000	Equity component HK\$'000
Net carrying amounts at 1 April 2007	64,900	2,326
Net carrying amounts on initial recognition (<i>note i</i>)	629,712	6,072
Interest expenses	7,225	–
Interest paid	(463)	–
Arising from exercise of conversion rights (<i>note ii</i>)	(65,092)	(2,326)
Net carrying amounts at 30 September 2007	636,282	6,072

Notes:

- (i) On 16 July 2007, the Company entered into a subscription agreement with DBS Bank Limited pursuant to which DBS Bank Limited agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK\$650 million. The subscription was completed on 3 August 2007. Further details of which are disclosed in the Company's announcement dated 18 July 2007.
- (ii) During the period ended 30 September 2007 ended, convertible bonds with an aggregate amount of HK\$67,000,000 were converted into ordinary shares of the Company. Total number of ordinary shares converted was approximately 33,838,383.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of ranging from 8.9% to 6.09% 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 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 2007	29,451	13,494	42,945
Charged to income statement (<i>note 7</i>)	68,355	30,132	98,487
At 30 September 2007	97,806	43,626	141,432

16. Share capital

	Number of shares	Value
	'000	HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2007 and 30 September 2006	20,000,000	200,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each at 1 April 2006	829,842	8,298
Placing and subscription of new shares	167,212	1,672
Share option exercised	75,800	758
Conversion rights of convertible bonds exercised	116,980	1,170
Ordinary shares of HK\$0.01 each at 31 March 2007	1,189,834	11,898
Share option exercised (<i>note a</i>)	300	3
Conversion rights of convertible bond exercised (<i>note b</i>)	33,838	339
Repurchase of share (<i>note c</i>)	(1,254)	(13)
Placing and subscription of new shares (<i>note d</i>)	14,096	141
Ordinary shares of HK\$0.01 each at 30 September 2007	1,236,814	12,368



During the period ended 30 September 2007, the movements in share capital were as follows:

- (a) During the period ended 30 September 2007, the subscription rights attaching to 300,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$1.45 per share, resulting in the issue of 300,000 shares of HK\$0.01 each for a total cash consideration of approximately HK\$435,000 (before expenses).
- (b) During the period ended 30 September 2007, 33,838,383 ordinary shares of HK\$0.01 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of approximately HK\$2 per share.
- (c) During the period ended 30 September 2007, 1,254,000 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. An amount equivalent to the par value of the shares cancelled of HK\$13,000 was transferred from the share premium account to the capital redemption reserve. The premium and transaction cost paid on the repurchase of the shares of HK\$5,292,000 was charged to the share premium account.

- (d) On 30 March 2007, Asset Full Resources Limited entered into a placing agreement with Credit Suisse (Hong Kong) Limited for the placement of 14,095,940 ordinary shares of the Company owned by Asset Full Resources Limited at a price of HK\$3.33 per share. Pursuant to a conditional subscription agreement on the same date. Asset Full Resources Limited subscribed for 14,095,940 new ordinary shares of the Company at a price of HK\$3.33 per share. On 12 April 2007, the subscription completed and raised total consideration of approximately HK\$46,939,000 (before expenses).

17. Pledge of assets

The Group's bank and other loans at 30 September 2007 were secured by:

- (a) pledge of water revenue of certain subsidiaries; and
- (b) guarantees by You Tao and Liu 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 河南省四方藥業有限公司. 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) pledge over certain property, plant and equipment;
- (d) charge over certain interests in land use rights; and
- (e) charges over other intangible assets in which their aggregate carrying amount as at 30 September 2007 was HK\$127,400,000.

18. Litigation

During the period, 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	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Sale to a minority equity holder of subsidiaries (<i>Note</i>)	8,050	6,164

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.

20. Commitments

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

(i) Capital commitments

	As at	
	30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
Contracted, but not provided for		
– Construction in progress	566,798	168,849
– Plant and machinery	8,136	12,019
– Leasehold improvements	–	–
– Water pipelines	4,486	4,486
	579,420	185,354

As at 30 September 2007, the Group committed to make capital injections to its equity ventures operating in the PRC of approximately HK\$261,690,000 (31 March 2007: HK\$187,640,000).

(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:

	30 September 2007 (unaudited) HK\$'000	As at 31 March 2007 (audited) HK\$'000
Within one year	4,254	4,344
In the second to fifth year, inclusive	10,207	11,462
After five years	23,493	23,600
	37,954	39,406

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 2007 (unaudited) HK\$'000	As at 31 March 2007 (audited) HK\$'000
Within one year	973	973
In the second to fifth years, inclusive	930	1,359
	1,903	2,332

- (iii) At the balance sheet date, the Group had other commitments amounted to HK\$226,080,000 (31 March 2007: HK\$389,408,000) in respect of its business development and infrastructure projects in the PRC.
- (iv) At 30 September 2007, the Company had commitment to make direct capital injections to its equity ventures operating in the PRC of approximately HK\$190,806,000 (31 March 2007: HK\$141,839,000).

21. Contingent liabilities

As at 30 September 2007 and 2006, 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:

- (a) On 26 October 2007, the Company entered into an agreement with 山西省萬家寨引黃工程總公司 (Shanxi Wanjiashai Yellow River Diversion Project General Company) for the sale and purchase of 19.375% in the registered capital in 中國水務投資有限公司 (China Water Industry Investment Corporation), a company incorporation under the laws of the PRC. The total consideration for the transaction is RMB175 million.
- (b) On 14 November 2007, the Company entered into an agreement with the Management Committee of Konggang Industrial Park in Chongqing, PRC pursuant to which the Company agreed to undertake the construction of a new water processing plant at Guanyindong, Yubei District, Chongqing, PRC with a daily production capacity of 150,000 tonnes; the construction of the water pipes network within the water supply area with pipe size of over 300 mm in diameter; taking over the existing water pipes networks constructed by the Management Committee within the water supply area with pipe size of under 300 mm in diameter and be responsible for the audit, management, maintenance, repair and improvement thereof; acquiring from the Management Committee the existing water pipes net work within the water supply area of the Company at Chongqing Konggang Industrial Park Area within pipe size of over 300 mm in diameter. The estimated total investment is approximately RMB450 million.



INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the period under review, the Group recorded turnover of approximately HK\$374.9 million (2006: HK\$61.7 million), while net profit attributable to equity holders of the Company amounted to approximately HK\$211.7 million (2006: HK\$15 million). The increase in turnover is due to further expansion of the Group in the water business during the period. The Directors consider that the expansion in water business is in the interests of the Company and the Shareholders as a whole.

Liquidity and financial resources

As at 30 September 2007, the Group had current assets of approximately HK\$1,861 million (31 March 2007: HK\$915 million) and current liabilities of approximately HK\$1,038 million (31 March 2007: HK\$556 million). The Group's current ratio is approximately 1.79 times as at 30 September 2007 as compared with approximately 1.65 times as at 31 March 2007. The Group had total assets of approximately HK\$4,166 million (31 March 2007: 2,259 million) and total liabilities of approximately HK\$2,259 million (31 March 2007: HK\$975 million) representing a gearing ratio (expressed as total liabilities to total assets) of approximately 54.2% as at 30 September 2007 as compared with approximately 43.2% as at 31 March 2007.

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.

PROSPECTS AND BUSINESS OUTLOOK

Turnover

During the six months ended 30 September 2007, the Group has recorded a turnover of HK\$374.9 million, representing an increase of 508% compared with a turnover of HK\$61.7 million recorded during the same period last year. The significant increase in turnover is the result of a series of mergers and acquisitions of water operations made during the period by the Group including city water supply operations in Wujin city, Jiangsu Province, Xingshui city, Hainan Province, Gao'an city, Jiangxi Province, Yanshan, Jiangxi Province and Huizhou city, Guangdong Province. In addition, water operations acquired in the preceding period are now contributing positively to the Group's overall turnover.

Gross Margins

During the interim period, the Group has recorded a gross profit of HK\$148.7 million representing an increase of 343% from HK\$33.6 million recorded in the same period last year. Turnover and gross profit for the period attributable to each business segment are as follows:

In HK\$ million

	Turnover		Gross Profit		Gross Margin	
	30 September		30 September		30 September	
	2007	2006	2007	2006	2007	2006
City water supply	200.84	37.43	87.43	21.96	44%	58%
Waste water treatment	10.09		5.75		57%	
Property development	16.22		1.81		11%	
City infrastructure	93.00		41.17		44%	
Seabuckthorn	10.71	4.71	7.06	3.12	66%	66%
Concrete and others	44.08	19.56	5.46	8.53	12%	43%
Total	374.94	61.70	148.68	33.61	40%	54%

Profit attributable to shareholders

Net profit after tax attributable to shareholders for the six months ended 30 September 2007 amounted to HK\$211.73 million, including (1) an unrealized after tax gain on financial assets of HK\$194.09 million; and (2) a share of an after tax revaluation surplus on investment properties of HK\$33.03 million. After adjusting for gains on revaluation of financial assets and investment properties as well as one-off non cash expenses of HK\$39.99 and HK\$6.76 million for equity-settled option expenses and interest on convertible bonds amortized respectively, net profit after tax attributable to shareholders amounted to HK\$31.36 million.

City Water Supply

The Group is continuing to aim at achieving sustainable growth in its city water supply businesses by improving on operational efficiencies, benefiting from the organic growth in population as well as growth through mergers and acquisitions. As at 30 September 2007, the Group has consolidated city water supply operations in 15 cities with a daily capacity of 2.885 million M³. This represents increases of 66% in the number of operated cities and 137% in daily capacity respectively when compared with 9 operated cities and a daily capacity of 1.215 million M³ as at 31 March 2007. As a result of the capacity growth and efficiency gain, the Group has reported city water supply revenue of HK\$200.84 million for the six months ended 30 September 2007, a 58% increase from the corresponding period.

Except for cities in Guangdong Province, the Group continues to benefit from three major incomes arising from treating and supplying water, installing water meters as well as providing water-related construction services to cities in which it operates.

Highlights of key operating data with comparative figures are shown in the following table:

		6 months ended 30 September, 2007 (unaudited)	Year ended 31 March, 2007 Audited	Year ended 31 March, 2006 Audited
Daily treatment capacity	Mn M ³	2.885	1.215	0.27
Total supply volume	Mn M ³	161.90	76.66	17.89
Total paid volume	Mn M ³	119.16	51.86	12.12
Weighted average tariff	HK\$	1.20	1.06	0.96

1. Water revenue

With the continued efforts being placed on improving the operational efficiency of our existing projects, the Group has successfully turned around many of these operations and begun to contribute positively to the results for the six months ended 30 September 2007. Key improvements in supply and paid volume have been made as a result of this efficiency improvement, as well as the increase in the number of city water supply operations acquired during this period. On the basis that newly acquired operations have relatively higher water tariffs, together with tariff adjustments made in some cities, we have been able to report a weighted average water tariff of HK\$1.20 per M³ representing an increase of 13.2% from the financial year ended 31 March 2007 and 25% from the year ended 31 March 2006.

2. Meter Installation revenue

Except for cities in Guangdong Province, meter installation revenue generated from our other city water supplies continued to grow rapidly. For the six months ended 30 September 2007, the Group reported a total revenue from meter installations of HK\$30.79 representing an increase of 25.57% from HK\$24.52 reported in the year ended 31 March 2007. A total of 29,330 and 17,454 new connections have been reported for the respective periods representing an increase of 68%. At the same time, the weighted average connection fee has also risen to HK\$ 1,050 from HK\$921 for the respective periods.

3. Water-related construction revenue

In the period under review, the Group reported a total water related construction revenue of HK\$27.02 million, an increase of 59% from HK\$17.19 recorded in the year ended 31 March 2007.

4. Gross profit on city water supply by income type

Gross margins on core earnings are as follows:

In HK\$ million

	Turnover		Cost of Sales		Gross Profit	
	30 September 2007	2006	30 September 2007	2006	30 September 2007	2006
City water supply	143.03	18.26	82.03	6.52	61.00	5.13
Meter installation	30.79	12.01	17.66	2.92	13.13	2.85
Construction	27.02	7.16	13.72	5.51	13.30	1.42
Total	200.84	37.43	113.41	14.95	87.43	9.40



Business outlook

Local and Central Governments recognized that water shortages presents a serious problem affecting the economic and social development of China. The Central Government is ever more determined to put in place policies and control measures in order to reduce the risk of pollution of fresh water resources by implementing stringent policies to step up the rate of waste water treatment; to increase the operational efficiency of the water supply sector through the process of privatization; to reflect the scarcity value of water; to instill the concept of water conservation through proper pricing of water; and to accelerate and encourage investments in waste water recycling. Given that the intention of the Central Government is to achieve these goals in the shortest time possible, a huge amount of investment will be required. As a result, it is likely that the Central Government will promulgate favourable policies to attract investment in the water industry by the private sector. It is estimated that the next ten years will see a rapid development of the water industry within China.

China Water Affairs Group Limited, leveraging on its knowledge and expertise in the water sector of China, is likely to benefit significantly from these favourable market conditions. The Group will continue to expand its water operation into different cities within China, hence, providing it with a solid base on which to build a successful and profitable business in years to come.

Employees and remuneration policies

As at 30 September 2007, the Group had approximately 3,200 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 2007, 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	145,682,301	–	11.79%
Mr. Chen Guo Ru	Beneficial	6,290,000	–	0.51%
Mr. Zhao Hai Hu	Beneficial	1,900,000	–	0.15%

Note: These 145,682,301 shares consists of 106,282,301 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 39,300,000 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 (Note)	Short position	
Mr. Duan Chuan Liang	Beneficial	50,000,000	–	4.04%
Mr. Wu Jiesi	Beneficial	7,000,000	–	0.57%
Mr. Zhou Wen Zhi	Beneficial	1,370,000	–	0.11%
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.

In addition, Mr Li Ji Sheng is interested in 0.91% of the equity interest of 江河水務投資有限公司 (Foundation Water Affairs Investment Co. Ltd.), a non-wholly owned subsidiary of the Company.

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					Date of grant of share options	Exercise period of share options	Exercise price of share options (HK\$) (note a)
	At 1 April 2007	Granted during the period	Exercised during the period	Lapsed during the period	At 30 September 2007			
Directors								
Mr. Duan Chuan Liang (note b)	–	50,000,000	–	–	50,000,000	2 February 2007	Period 4	3.60
Mr. Li Ji Sheng	–	1,000,000	–	–	1,000,000	10 August 2007	Period 6	4.58
Mr. Wu Jiesi	6,000,000	–	–	–	6,000,000	29 March 2006	Period 2	1.45
	–	1,000,000	–	–	1,000,000	10 August 2007	Period 6	4.58
	6,000,000	1,000,000	–	–	7,000,000			
Mr. Chen Guo Ru	–	500,000	–	–	500,000	10 August 2007	Period 6	4.58
Mr. Zhou Wen Zhi	870,000	–	–	–	870,000	3 January 2006	Period 1	0.41
	–	500,000	–	–	500,000	10 August 2007	Period 6	4.58
	870,000	500,000	–	–	1,370,000			
Mr. Zhao Hai Hu	–	800,000	–	–	800,000	10 August 2007	Period 6	4.58
Other employees								
In aggregate	1,700,000	–	–	–	1,700,000	3 January 2006	Period 1	0.41
	2,700,000	–	–	–	2,700,000	17 March 2006	Period 3	1.16
	1,300,000	–	(300,000)	–	1,000,000	29 March 2006	Period 2	1.45
	–	21,900,000	–	–	21,900,000	30 April 2007	Period 5	4.35
	5,700,000	21,900,000	(300,000)	–	27,300,000			
Suppliers/Advisors								
In aggregate	–	9,500,000	–	–	9,500,000	30 April 2007	Period 5	4.35
	12,570,000	85,200,000	(300,000)	–	97,470,000			

Notes:

Period 1	3 February 2006 to 2 January 2008
Period 2	29 March 2006 to 28 March 2011
Period 3	17 March 2006 to 16 March 2011
Period 4	2 April 2007 to 1 April 2009
Period 5	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 6	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 2007, 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	106,282,301	-	8.59%	-
Atlantis Investment Management Limited	Corporate	173,900,000	-	14.06%	-
L-R Global Partner L.P.	Corporate	94,750,000	-	7.66%	-
HSZ Limited	Corporate	67,254,000	-	5.44%	-
Deutsche Bank, Aktiengesellschaft	Corporate	85,641,529	8,400,000	6.92%	0.68%

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 2007, 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 2007, except for certain deviations as follows:

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term and subject to re-election.

Except for Mr. Wu Jiesi and Chen Guo Ru, none of the existing non-executive directors of the Company is appointed for a specific term. However, under the Company's bye-laws, all the directors of the Company (whether executive or non-executive) are subject to the retirement by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice are no less exacting than those in the Code.

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 2007.

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

During the six months ended 30 September 2007, 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\$
August 2007	1,254,000	4.22	4.03	5,285,260

The shares repurchased during the period were cancelled in August 2007 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 2007 with the directors.

On behalf of the Board
Duan Chuan Liang
Chairman

Hong Kong, 23 November 2007

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.