2008

annual report

BEIJING ENTERPRISES WATER GROUP LIMITED ANNUAL REPORT

beijing enterprises water group limited

Stock Code : 371

BEWG
北控水務

CONTENTS

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Honghai *(Chairman)*
Mr. Liu Kai
Mr. E Meng
Mr. Jiang Xinhao
Mr. Hu Xiaoyong *(Chief Executive Officer)*
Mr. Wang Taoguang
Mr. Wu Xiaoming
Mr. Zhou Min
Mr. Li Haifeng
Ms. Qi Xiaohong
Mr. Ju Yadong

Independent Non-executive Directors

Mr. Shea Chun Lok, Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Ms. Hang Shijun
Mr. Wang Kaijun

AUDIT COMMITTEE

Mr. Shea Chun Lok, Quadrant *(Chairman)*
Mr. Guo Rui
Mr. Zhang Gaobo

REMUNERATION COMMITTEE

Mr. Zhang Gaobo *(Chairman)*
Mr. Guo Rui
Ms. Qi Xiaohong

COMPANY SECRETARY

Mr. Tsang Ngai Man

AUTHORIZED REPRESENTATIVES

Ms. Qi Xiaohong
Mr. Tsang Ngai Man

STOCK CODE

371

REGISTERED OFFICE

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22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Ernst & Young

WEBSITE

www.bewg.com.hk

PRINCIPAL BANKERS

Bank of Communications, Hong Kong Branch
China Construction Bank, Hong Kong Branch

As at 30 March 2009

- **Beijing Enterprises Holdings Limited**# stock code:392
  - 65.15% → **Beijing Enterprises Water Group Limited**# stock code:371
    - 88.43% → **Z.K.C. Environmental Group Co., Ltd. (中科成環保集團有限公司)** (a sino-foreign joint venture established in the People's Republic of China)
      - **Shandong**
        - 100% → Qingdao(「青島」)
        - 100% → Jiaonan(「膠南」)
        - 100% → Shangma(「上馬」)
        - 100% → Heze(「菏澤」)
        - 100% → Jinan Shifang(「濟南十方」)
        - 50.28% → Binzhou Hua Qiang(「濱州華強」)
        - 55.63% → Zhanhua Hua Qiang(「沾化華強」)
      - **Sichuan**
        - 100% → Mianyang(「綿陽」)
        - 100% → Jiangyou(「江油」)
        - 80% → Shuangliu(「雙流」)
        - 52% → Pixian(「郫縣」)
        - 100% → Huayang(「華陽」)
        - 100% → Longquan(「龍泉」)
        - 100% → Pengzhou(「彭州」)
      - **Guangdong**
        - 100% → Nansha(「南沙」)
        - 100% → Zhongye(「中業」)
        - 100% → Sanshui(「三水」)
        - 48% → Hua Qiang Feng Tai(「華強豐泰」)
      - **Hunan**
        - 90% → Changsha(「長沙」)
      - **Zhejiang**
        - 100% → Taizhou(「台州」)
    - 66.67% → **Guigang Water Supply Limited Liability Company (貴港市供水有限責任公司)** (People's Republic of China)
    - 100% → **Yongzhou Beijing Enterprises Waste Water Purification Company Limited (永州市北控污水淨化有限公司)** (People's Republic of China)

Listed on the Main Board of The Stock Exchange of Hong Kong Limited

Dear Shareholders

2008 was a crucial year in the development of Beijing Enterprises Water Group Limited (the "Company"; together with its subsidiaries, the "Group"). We succeeded in establishing a presence in China's water market with our unremitting efforts. To reflect this major change in our new strategy, the Company has changed its name from Shang Hua Holdings Limited to Beijing Enterprises Water Group Limited in March 2008.

As a flagship enterprise engaged into the water treatment industry of Beijing Enterprises Holdings Limited ("BEHL") (stock code: 392), the Company's holding company, the Group is strategically positioned itself as a leading integrated water system solution provider based on its "market-oriented approach, solid capital foundation, sound management and advanced technology". The Group has focused its core business on sewage treatment in both the water treatment business and the environmental protection business. We have successively acquired the controlling interests in several renowned enterprises including Z.K.C. Environmental Group Co., Ltd. (中科成環保集團有限公司) and its subsidiaries ("ZKC Environmental Group"), Shenzhen Hua Qiang Chuang Xin Investment Company Limited (深圳華強創新投資有限公司) ("Shenzhen Hua Qiang") and Guigang Water Supply Limited Liability Company (貴港市供水有限責任公司) ("Guigang Water") by means of the acquisition of equity interest, Transfer-Operate-Transfer ("TOT") and Build-Operate-Transfer ("BOT"). We have a total of two water treatment plants and 24 sewage treatment plants in Guangdong, Zhejiang, Shandong, Hunan, Sichuan, Guangxi and Guizhou in the People's Republic of China (the "PRC") with a water processing capacity of 1,885,000 tonnes per day, of which a sewage processing capacity accounts for 1,735,000 tonnes per day and a water supply volume is 150,000 tonnes per day, accomplishing an initial nationwide investment network. In 2008, the Group gained recognition from the industry for being rated first by Chinawater.com (中國水網) among "2008 PRC Water Service Outstanding New Enterprises" (2008年度中國水務新鋭企業), and third among "2008 Top Ten Influential Enteprises in PRC's Water Industry" (2008年度中國水業十大影響力企業).

BUSINESS REVIEW

The Group achieved operating revenue of HK$337.7 million for the period from 1 July 2007 to 31 December 2008 ("the period"), representing a sharp rise of 17 times from HK$19.9 million for the previous financial year. During the period under review, the Group turned to profit, achieving a profit attributable to shareholders of HK$31.0 million (2007: a loss of HK$2.6 million). Basic earnings per share for the period was HK3.82 cents.

During the period, the Group has entered into a number of acquisition projects with an attempt to become a leading integrated water system solution provider.

In August 2008, the Group successfully acquired ZKC Environmental Group, becoming one of the major operators in the PRC sewage treatment market. At present, ZKC Environmental Group had a total of 20 sewage treatment plants in Sichuan, Hunan, Shandong, Zhejiang and Guangzhou in China, with a sewage treatment capacity of 1,480,000 tonnes per day, making itself one of the leading sewage treatment enterprises in the PRC. ZKC Environmental Group is among the few enterprises in the sector within the PRC that are fully qualified for all sewage operations. It owns patented technology with proprietary intellectual property rights and possesses professional experience in the construction of more than 20 sewage treatment projects, a set of normative and scientific corporate management system and a very veteran management team with efficient operation.

The acquisition of Shenzhen Hua Qiang was completed in September 2008, bringing an additional water processing capacity of 315,000 tonnes per day. Shenzhen Hua Qiang held 80%, 83.8% and 55% interests in Shenzhen Hua Qiang Feng Tai Investment Company Limited (深圳華強豐泰投資有限公司), Binzhou Hua Qiang Xi Hai Shui Wu Company Limited (濱州華強西海水務有限公司) and Zhanhua Hua Qiang Shui Wu Huan Bao Company Limited (沾化華強水務環保有限公司) respectively. Shenzhen Hua Qiang Feng Tai Investment Company Limited and Zhanhua Hua Qiang Shui Wu Huan Bao Company Limited are primarily engaged into the water treatment business; and Binzhou Hua Qiang Xi Hai Shui Wu Company Limited is principally engaged into the water supply in Binzhou.

The Group's acquisition of Guigang Water, which has a water processing capacity of 200,000 tonnes per day, commenced at the end of 2008. Guigang Water is principally engaged in the operations of water supply and treatment, and the provision of the related water supply services in Guigang City, Guangxi province, the PRC. A sewage treatment plant, known as Guigang Chengxi Sewage Treatment Plant (貴港城西污水處理廠), is currently under construction by Guigang Water. The abovementioned transaction was approved by the shareholders of the Company in a special general meeting held on 19 January 2009.

MANAGEMENT TEAM

While carrying out the acquisitions of the above companies, the Group was aggressively pushing forward an integration program and speedily opening up new market segments.

A team for promoting fundamental management was set up to fully commence system standardization for existing management policies, expedite team integration and cultivate a corporate culture with the Company's characteristics. For this reason, we initiated a "cognitive system" that enables employees to reach a consensus among themselves to integrate the cultural philosophy of "responsibility, value, teamwork and compatibility" into the business activities of the Company and day-to-day behaviors of the employees.

With respect to financial control, the Group stepped up risk control to ensure its ongoing and healthy development. A financial control policy for "safety, efficiency and accuracy" was devised; a second-level principle of delegation for the financial staff of project companies was gradually introduced; a control model combining financial management system and budget management system was set up; a business review system combining financial inspection and audit supervision was implemented; and special training was conducted for financial staff to raise their job skills and overall quality.

STRATEGY FOR DEVELOPMENT

In 2009, the Group will center on its strategic position and strengthen on the sewage business by carrying out the integration of water supply and sewage; setting up an integrated control model for water supply and sewage; and reinforcing core competitive edges based on its "market-oriented approach, solid capital foundation, sound management and advanced technology" so as to achieve great-leap development.

In strengthening the sewage business, the Group will continue to enhance its capabilities regarding the construction and management of sewage projects, step up construction cost control, raise on-site management standards and strengthen the management of procurement and tender invitation.

In the aspect of integrating water supply and sewage, we aim to establish our own water supply operation and management system with reference to internationally-developed and domestically-advanced water supply operation and management system, our findings and analysis on Guangxi Guigang Projects as well as the profit model and risk points of the industry. This system will match the sewage operation and management system to form our water supply and sewage integrated control model.

To ensure the Company's sustainable development, the Group will continue to increase resource commitment and support to technological development and research to maintain its leading position and ongoing innovation ability in technology within the sector. While efforts are being made to upgrade the applicability and advancing of technology in sewage treatment and normal water recycling, it is necessary to introduce, digest and absorb state-of-the-art technology in sludge disposal and seawater desalination in line with the fundamental realities of the PRC to serve as a technical assurance for further extending the water industrial chain.

PROSPECTS

The global financial crisis has created a certain impact on the water industry. However, under an array of economic stimulus policies introduced by the Chinese Government, the RMB4 trillion spending package committed by the Chinese Government will cover water and garbage treatment, prevention and control of water pollution as well as protection of forest resources. Among the investment projects, those projects that are in compliance with energy conservation and emission reduction standards will be financed. Under the present excellent situation where national policies are inclined towards the environmental protection industry, we expect that water treatment as a major project in the environmental protection program will obtain great support.

At present, the policy led by the Chinese Government for expanding domestic demand has provided impetus to government's investments in water industry-related facilities. This has clearly demonstrated a situation in the whole urban water sector where "the government proceeds with investment while companies pull back" such that government-backed water enterprises will become active players in the market and the global financial crisis will result in an early "reshuffle" of the water industry. The Group will take advantage of this unique opportunity for a take-off. In view of the rapid expansion of its scale of operation and the increasing number of its subsidiaries, the Company will further strengthen its the management and risk-control capabilities so as to bring our strategy "to become a leading integrated water system solution provider" to a full play.

At last, we would like to express our sincere gratitude to our shareholders, customers, employees and partners for their supports.

Zhang Honghai
CHAIRMAN

Hong Kong, 30 March 2009

FINANCIAL HIGHLIGHTS

In order to align the financial year end date of the Company with that of its holding company, BEHL, the Board of Directors (the "Board") resolved to change the financial year end date of the Company from 30 June to 31 December commencing from the financial year 2008. As a result, the current financial period covers an eighteen months period from 1 July 2007 to 31 December 2008 ("the period"). Accordingly, the comparative amounts presented for the consolidated income statement and the related notes, which were prepared for the year ended 30 June 2007, are not comparable.

During the period, the revenue of the Group was HK$337.7 million, representing a surge of 17 times as compared with the financial year ended 30 June 2007 ("last year"). The profit attributable to shareholders of the Company for the period was HK$31.0 million which was substantially turned around from a loss of HK$2.6 million last year. Basic earnings per share for the period was HK3.82 cents (loss per share last year: HK3.08 cents). The substantial growth of profit for the period signified our success of strategic move from computer trading business to the provision of water service during this period. The Board does not recommend the payment of a final dividend for the period.

In August 2008, the Group has acquired ZKC Environmental Group, a leading operator in China's water market. The net profit of ZKC Environmental Group for the twelve months ended 31 December 2008 was HK$148.6 million*, representing an increase of 63% as compared with its corresponding period in 2007. Based on the Group's 88.43% equity interest in ZKC Environmental Group, the net profit attributable to the Group would be HK$132.9 million*. However, since the completion of acquisition was in August 2008, the Group can only share five months profits of ZKC Environmental Group which amounted of HK$83.1 million*. In view of this, we believe the acquisition of ZKC Environmental Group has already laid a strong foundation for our business growth and prosperity in future years.

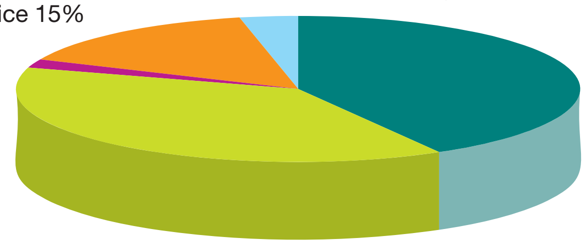
BUSINESS REVIEW

Upon the acquisition of ZKC Environmental Group, the principal business of the Group includes sewage treatment service, construction service, sewage technical service, water supply service and others. The financial results of these businesses during the period are set out in details below:

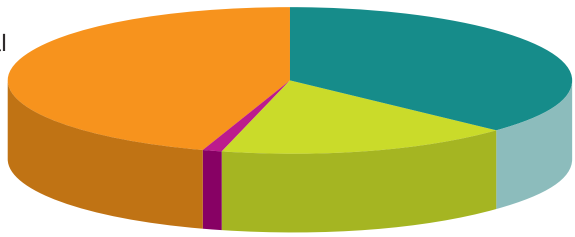
	Revenue		**GP ratio**	**Net profit attributable to the Group***	
	HK$'M	%	%	*HK$'M*	%
Sewage treatment service	138.2	41%	61%	30.5	36%
Construction service	131.3	39%	14%	11.8	14%
Sewage technical service	51.2	15%	95%	40.3	48%
Water supply service	6.1	2%	56%	1.3	2%
Computer trading	10.9	3%	1%	0.0	0%
	337.7	100%		83.9	100%

* *After the elimination of intragroup transaction between ZKC Environmental Group and the Group*

Revenue



Net profit attributable to the Group*



Profit for the period attributable to shareholders of the Company of HK$31.0 million was arrived after deducting head office overheads of HK$16.7 million and convertible bond interest of HK$35.4 million from the ZKC Environmental Group's net profit attributable to the Group of HK$83.1 million*. ZKC Environmental Group's net profit attributable to the Group of HK$83.1 million was arrived after deducting share of loss of an associate of HK$0.8 million from the net profit attributable to the Group contributed by the principal business of HK$83.9 million as stated above.

Sewage treatment service

General situation

The Group commenced its sewage treatment service since the acquisition of ZKC Environmental Group in August 2008. ZKC Environmental Group is one of the leading operators in China's water market with a key focus on waste water treatment. As at 31 December 2008, the Group has 20 sewage treatment plants across China which are capable of processing 1,480,000 tonnes of waste water per day. Sewage treatment capacity of 1,140,000 tonnes are in operation and the remaining 340,000 tonnes are under construction. The average price of water treatment is approximately HK$1.02 per tonne. The actual processing volume from 1 August 2008 (as at the acquisition date of ZKC Environmental Group) to 31 December 2008 was 114.3 million tonnes contributing a revenue of HK$138.2 million during the period, which represents 41% of the Group's total revenue. Net profit attributable to the Group was HK$30.5 million. The information of sewage treatment service in China is as follows:

* *After the elimination of intragroup transaction between ZKC Environmental Group and the Group*

1. Western China

ZKC Environmental Group has established its footprint in Western China since 2002. Riding on its extensive experience in this region, the Group has established seven water plants with total daily processing capacity of 415,000 tonnes, of which 315,000 tonnes are in operation and 100,000 tonnes are under construction. The name of seven water plants are Mianyang, Jiangyou, Huayang, Shuangliu, Longquan, Guizhou and Pengzhou respectively. They are mainly located in Sichuan and Yunan. The actual processing volume from 1 August 2008 to 31 December 2008 was 31.6 million tonnes contributing an operating revenue of HK$35.6 million during the period. Net profit attributable to the Group amounted to HK$9.7 million.

2. Southern China

The Group's expansion in Southern China was rapid during the period. Through the acquisition of ZKC Environmental Group, the Group had taken over three new projects with daily processing capacity of 330,000 tonnes in Southern China. Following a series of successful bidding in water projects and acquisition in the fourth quarter of 2008, the Group's water treatment capacity in this region has been doubled to 680,000 tonnes at the end of 2008. As at 31 December 2008, the Group has six water plants in this region and are mainly located in Guangdong and Hunan provinces. The name of water plants are Zhongye, Guangzhou, Changsha, Sanshui, Yongzhou and Shenzhen Hua Qiang respectively. Those water processing capacities of 530,000 tonnes are in operation and the remaining 150,000 tonnes are still under construction. The newly acquired Shenzhen Hua Qiang project has daily processing capacity of 200,000 tonnes. It was consolidated into the Group's results since the completion of acquisition in October 2008. The actual processing volume from 1 August 2008 to 31 December 2008 amounted to 43.7 million tonnes contributing an operating revenue of HK$54.9 million and net profit attributable to the Group of HK$10.2 million during the period.

3. **Eastern China**

The Group's investments in Eastern China are mainly focused in Shandong province. With the fast-growing industrial activities, the demand for waste water treatment service is relatively high in Shandong. Favorable policies were introduced by the municipal government to attract foreign and private investments in water industry. Taking this advantage, the Group has established six treatment plants with total daily processing capacity of 295,000 tonnes in Shandong. The name of six water plants are Jiaonan, Heze, Jiaozhou, Shangma, Zhanhua Hua Qiang and Jinan respectively. Together with Taizhou Project in Zhejiang province, the Group has achieved processing capacity of 385,000 tonnes per day, of which 90,000 tonnes was under construction. The actual processing volume from 1 August 2008 to 31 December 2008 was 39.0 million tonnes contributing an operating revenue of HK$47.7 million during the period. Net profit attributable to the Group was HK$10.6 million.

Construction service

ZKC Environmental Group has entered into a number of service concession contracts on a BOT basis in respect of its sewage treatment business. Under HK(IFRIC)-Int 12 Service Concession Arrangements, ZKC Environmental Group should recognize the construction revenue with reference to the fair value of the construction service delivered in the building phase. The fair value of such service is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of service concession agreement. Construction revenue is recognized by using the percentage of completion method.

During the period, three water plants namely Longquan, Taizhou Phase II and Mianyang Phase III were under construction. These water plants are located in Sichuan and Zhejiang province. The total design capacity of these water plants is 120,000 tonnes. Total construction revenue generated by these water plants for the period was HK$131.3 million and net profit attributable to the Group was HK$11.8 million. At present, the construction of these water plants is running smoothly and it is expected that the operation of these water plants shall commence in 2009. Apart from this, four water plants namely Pengzhou, Sanshui, Yongzhou and Jinan Phase II with aggregate design capacity of 220,000 tonnes have just conducted the preliminary construction planning work at the end of 2008 and thus no construction revenue was contributed during the period. The construction work of these water plants shall commence in 2009.

Sewage technical service

ZKC Environmental Group, being an all-rounded market player in water market, has not only acquired extensive experience in bidding, building and operating waste water treatment projects, but also successfully marketed its patented treatment technology, "LIER-POOLK" to other operators. The patented treatment technology is characterized as cost-saving and has complied with government standards. Revenue from the provision of technical services was HK$51.2 million which represents 15% of the Group's total revenue. The net profit attributable to the Group was HK$40.3 million.

Water supply service

While the Group has gained strong presence in China's waste water treatment sector, it has also started to explore water supply market. In October 2008, the Group has acquired Binzhou Hua Qiang project in Shandong with a design water supply capacity of 50,000 tonnes per day. Though the revenue contribution from water supply service was minimal during the period, it generated revenue of HK$6.1 million (2% of the Group's total revenue) and net profit attributable to the Group of HK$1.3 million. The Group expects great growth potential from this sector in future. From the track record, the annual water supply increment for Binzhou Hua Qiang project is over 10%. When its water supply volume reaches 50,000 tonnes, the Group is entitled to start phase II construction of the above project.

FINANCIAL PERFORMANCE ANALYSIS

Income and expenditure

Revenue

During the period, the Group recorded revenue of HK$337.7 million, representing a surge of 17 times as compared with the year ended 30 June 2007. This was mainly attributable to the newly acquired water treatment business in August 2008 which bolsters the substantial growth of the Group's revenue.

Cost of sales

As a result of the business expansion, the cost of sales also increased by 828.6% to HK$182.9 million. The costs of sales mainly included construction cost of HK$113.4 million and operating cost of water plants of HK$56.0 million. The construction cost was mainly represented by the subcontracting charges. For the operation of water plants, the major costs were electricity charges of HK$19.9 million, staff cost of HK$9.7 million and major overhaul charge of HK$7.3 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

Gross profit margin

During the period, gross profit margin increased sharply from 1.0% to 45.8% as a result of successful business transformation from computer trading to the provision of water services. Due to keen competition in the computer consumer products market, only low profit margin was generated last year. Whereas, the provision of water service can generate higher profit margin due to relatively low cost input.

Other income and gains, net

The Group recorded other income of HK$11.4 million (2007: HK$1.4 million). The increase was mainly due to interest income growth of HK$8.1 million driven by bank deposits from fund raising activities held during this period.

Administrative expenses

Administrative expenses increased 907.1% from HK$4.2 million in 2007 to HK$42.3 million in the period which was mainly resulted from the increase in scale of operation. As a result of the business expansion, the number of staff employed by the Group increased to 1,025 employees from 18 employees in last year. Accordingly, staff cost included in administrative expenses for this period increased significantly to HK$18.5 million, representing increase of 11 times as compared with last year.

Finance costs

Finance costs mainly comprised interest on bank and other borrowings of HK$23.6 million and convertible bond interest of HK$35.4 million. During the period, zero coupon convertible bonds of HK$1,489.3 million were issued by the Company to finance the funding for new business development and acquisition, which resulted in imputed interest expenses of HK$35.4 million. The imputed interest was resulted from accounting treatment and it did not affect the actual cashflow of the Group.

Tax

Income tax expense for the period included current PRC income tax of HK$3.9 million. The effective tax rate for PRC operation was around 8% which was lower than the PRC income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit during the period. Deferred tax for the period was HK$8.3 million.

Liquidity and financial resources

During the period, the Group has revamped its business strategy and actively seeked various opportunities to step into water treatment market. With a view to capitalizing sufficient financial resources for new business development, the Company raised total proceed of HK$998.8 million during the period by debt and capital financing. These capital resources provided a substantial support for the Group's expansion and development in the water treatment and environmental businesses.

1. Debt financing

The Company issued convertible bonds with an aggregated principal amount of HK$200 million to Pioneer Wealth Limited, a shareholder of the Company, and convertible bonds with principal value of HK$700 million to Beijing Enterprises Environmental Construction Limited (formerly known as Lucky Crown Management Limited and a wholly-owned subsidiary of BEHL).

2. Capital financing

To further strengthen its financial base, the Company issued 247,000,000 new shares at a subscription price of HK$0.40 and generated total funding of HK$98.8 million.

Apart from fund raising purpose during the period, 559,787,908 new shares at HK$0.69 per share and convertible bonds with principal value of HK$589.3 million were also issued as consideration for acquisition of ZKC Environmental Group.

As at 31 December 2008, the issued shares of the Company has increased to 2,405,073,357 shares. Since the convertible bonds contain both financial liability and equity components, the proceeds from issuance are classified separately as liability and reserves under equity. Thus, the issuance of convertible bonds also gives rise to the increase in equity. Accordingly, together with the effect of issuance of new shares, total equity of the Group increased significantly to HK$1,998.0 million.

As at 31 December 2008, the Group has achieved a strong liquidity position with cash and cash equivalents surged to HK$834.9 million. The funds were mainly raised through the issuance of new shares and convertible bonds during the period.

The Group's total borrowings amounted to HK$1,868.4 million as at 31 December 2008, comprising convertible bonds of HK$669.3 million and bank and other borrowings of HK$1,199.1 million. The bank and other borrowings are carried in PRC subsidiaries for the financing of construction of water plants and thus were mainly repayable in long term. Only 17.7% of the bank and other borrowings are repayable within one year. The gearing ratio (defined as total borrowings, net of cash and cash equivalents, divided by the total equity) was 0.52 as at 31 December 2008.

Capital expenditures

During the period, the Group's total capital expenditures were HK$271.5 million (2007: HK$27,000), of which HK$4.6 million was spent on the acquisition of property, plants and equipments while HK$266.9 million was paid as consideration of the acquisition of Shenzhen Hua Qiang. The significant increase in capital expenditures was in line with the expansion plans of the Group.

PROSPECT

Looking ahead, the Group will progressively reduce its reliance on trading of computers and related products. Yet, the Company does not intend to dispose of the existing computer business. It is expected that with the proposed business diversification, the contribution from the computer business to the Group would become less material.

On the other hand, the Group will focus on water treatment and environmental businesses. Given that most of bidding and acquisition of water plants took place since August 2008, there are rooms for the growth of the Group's operating results. In addition, the Group shall continuously achieve the growth through both greenfield development and acquisition. Recently, the Group has acquired Guigang Water in Guangxi province which has a water supply plant and a sewage treatment plant with daily capacity of 100,000 tonnes respectively. Guigang city is one of the fast-growing cities in Guangxi. With the rapid industrial and urban development in Guigang city, the demand of water supply and sewage treatment will continue to accelerate. The Group has also signed some memorandum of understanding for waste water treatment projects and water supply projects with an aggregated water treatment capacity of approximately 1.2 million tonnes and daily water supply capacity of 1.0 million tonnes. These potential projects are mainly located in Heilonjiang and Yunan. The Group is also evaluating certain waste water treatment and water supply projects in provinces and cities such as Beijing, Fujian, Guizhou, Hebei and Hunan with a total capacity of approximately 5.6 million tonnes per day for waste water treatment and 1.6 million tonnes per day for water supply. We shall continue to identify and actively seek water treatment and environmental projects with sound potential growth so as to generating considerable return for shareholders and investors.

Employees and remuneration policies

As at 31 December 2008, the Group employed 1,025 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

The Company is committed to maintaining the quality of corporate governance so to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period, except for the certain deviation disclosed hereinbelow.

BOARD OF DIRECTORS

Composition and role

The Board currently consists of sixteen directors: comprising eleven executive directors, namely, Mr. Zhang Honghai, Mr. Liu Kai, Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong, Mr. Wang Taoguang, Mr. Wu Xiaoming, Mr. Zhou Min, Mr. Li Haifeng, Ms. Qi Xiaohong, Mr. Ju Yadong; and five independent non-executive directors ("INED(s)"), namely, Mr. Shea Chun Lok, Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun. One of the INEDs namely, Mr. Shea Chun Lok, Quadrant, has the professional and accounting qualifications required by the Listing Rules. The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition and disposal, connected transactions, placing of shares and monitoring the financial performance of the Group in pursuit of its strategic goals. Control and day to day operation of the Company is delegated to the chief executive officer and the management of the Company. There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship.

Board Meeting

Attendance records of the Board meetings for the period set out below:

Name of Director		Number of meetings attended/held
Mr. Zhang Honghai	(appointed on 7 May 2008)	4/5
Mr. Liu Kai	(appointed on 18 February 2008)	3/5
Mr. E Meng	(appointed on 18 February 2008)	4/5
Mr. Jiang Xinhao	(appointed on 3 June 2008)	3/5
Mr. Hu Xiaoyong	(appointed on 1 August 2008)	4/5
Mr. Wang Taoguang	(appointed on 1 August 2008)	2/5
Mr. Wu Xiaoming	(appointed on 1 August 2008)	1/5
Mr. Zhou Min	(appointed on 1 August 2008)	4/5
Mr. Li Haifeng	(appointed on 1 August 2008)	4/5
Ms. Qi Xiaohong	(appointed on 7 May 2008)	5/5
Mr. Ju Yadong	(appointed on 7 May 2008)	2/5
Mr. Shea Chun Lok, Quadrant		9/13
Mr. Zhang Gaobo	(appointed on 7 May 2008)	1/5
Mr. Guo Rui	(appointed on 31 May 2008)	1/5
Ms. Hang Shijun	(appointed on 1 August 2008)	1/5
Mr. Wang Kaijun	(appointed on 1 August 2008)	1/5
Mr. Flynn Xuxian Huang	(resigned on 7 May 2008)	8/8
Ms. Guan Mei	(resigned on 4 March 2008)	7/8
Mr. Chase J Wong	(resigned on 31 May 2008)	8/8
Mr. Chan Wai Kwong, Peter	(resigned on 7 May 2008)	8/8
Mr. So Kwok Keung	(appointed on 1 August 2007 and resigned on 31 May 2008)	7/8
Mr. Ngai Chi Yung	(resigned on 27 August 2007)	0/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Company is Mr. Zhang Honghai and the chief executive officer of the Company is Mr. Hu Xiaoyong. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Code provision A.4.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

The Company has received, a written an annual confirmation from each of the INEDs confirming his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Mode Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the period, in the opinion of the Board, the Company had complied with all code provisions set out in the CG Code, except that, with respect to code provision A.4.1, the non-executive directors of the Company have not been appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures are in place to ensure the company's corporate governance practices are no less exacting than those set out in the CG Code.

BOARD COMMITTEES

The Board has established two board committees to strengthen its functions and corporate governance practices, namely, Audit Committee and Remuneration Committee. The Audit Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant (Chairman of the Audit Committee), Mr. Zhang Gaobo, and Mr. Guo Rui. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Audit Committee is responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements, any issues arising from the audit and any other auditors may wish to raise and review of the Company's internal control and risk management.

Summary of work done in the period: Reviewed the financial statements for the period from 1 July 2007 to 30 June 2008 and for the period from 1 July 2007 to 31 December 2008, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management.

The Audit Committee held four meetings during the period with an attendance rate of 100%.

Remuneration Committee

The Company's Remuneration Committee was established in 2008. The Remuneration Committee comprises one executive director namely, Ms. Qi Xiahong and two INEDs namely, Mr. Zhang Gaobo (Chairman of the Remuneration Committee) and Mr. Guo Rui. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible of developing remuneration policies and in overseeing remuneration packages of the directors whether the emoluments offered are appropriate to the duties and performance of the respective individuals concerned. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

Summary of work done during the period: Reviewed and approved the remuneration of directors according to their respective responsibilities, expertise and performance. The Remuneration Committee held one meeting during the period with an attendance rate of 100%.

AUDITORS' REMUNERATION

For the period, the auditors of the Company only provided audit services to the Company and only received from the Company auditors' remuneration in relation thereto.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework.

The Board has conducted a review of the effectiveness of the system of internal control of the Company. In view of strengthening the internal control system to meet with the continuous corporate and business development of the Company, the Board will conduct an internal company-wide study to review and enhance the internal control system.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible of the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the period ended 31 December 2008, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

Our Board currently consists of sixteen directors, comprising eleven executive directors and five independent non-executive directors.

DIRECTORS

Executive Directors

Mr. Zhang Honghai ("Mr. Zhang"), aged 56, was appointed as the Chairman and Executive Director of the Company in May 2008. Mr. Zhang is also a Vice Chairman and the Chief Executive Officer of BEHL. He also serves as a director of Beijing Enterprises Group Company Limited, an executive director of Beijing Development (Hong Kong) Limited (stock code: 154) and the Chairman of China Information Technology Development Limited (stock code: 8178). Mr. Zhang graduated from Peking University in 1982 and subsequently obtained a master's degree in business studies at the International Business School of Hunan University and was awarded the title of Senior Economist. In 2008, Mr. Zhang graduated from the EMBA program of Peking University. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. He also served as Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as Deputy General Manager and was then promoted to Vice Chairman and General Manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management.

Mr. Liu Kai ("Mr. Liu"), aged 55, was appointed as an Executive Director of the Company in February 2008. He is also an Executive Director and a Vice President of BEHL. Mr. Liu is also responsible for the general management of Beijing Enterprises Holdings Investment Management Co., Ltd. He graduated from Tsinghua University with a bachelor's degree in mechanical engineering in 1979, and later obtained a postgraduate qualification in domestic economics and management as well as law, from the State Administration Institute. In 2007, Mr. Liu graduated from the EMBA program of Tsinghua University. Prior to joining the Company, Mr. Liu served as a Senior Executive of the Beijing Transportation Bureau and the Beijing Transportation Corporation. Mr. Liu has many years of experience in economics and management.

Mr. E Meng, aged 50, was appointed as an Executive Director of the Company in February 2008. He is also the Chief Financial Officer of Beijing Enterprises Group Limited, and an Executive Director and an Executive Vice President of BEHL. Mr. E Meng also serves as the Chairman of Beijing Development (Hong Kong) Limited, and an Independent Non-executive director of JLF Investment Company Limited (stock code: 472). Mr. E Meng graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the Deputy Director of Beijing New Technology Development Zone and concurrently acting as the Director of the Department of Financial Auditing, the General Manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the Deputy Director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E Meng has extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao ("Mr. Jiang"), aged 44, was appointed as an Executive Director of the Company in June 2008. Mr. Jiang also serve as Executive Director and a Vice President of BEHL. Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a Deputy General Manager of Jingtai Finance Company in Hong Kong, and subsequently a Director and Deputy General Manager of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a Director and the Chief Executive Officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a Manager of the investment development department of Beijing Holdings Limited and a General Manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a Policy Analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management.

Mr. Hu Xiaoyong ("Mr. Hu"), aged 44, was appointed as the Chief Executive Officer and Executive Director of the Company in August 2008. Mr. Hu holds an EMBA of the Tsinghua University. In 2001, he was appointed as Vice Chairman of the China Environmental Service Industry Association (全國工商聯環境服務業商會). Mr. Hu was Chairman of Guangzhou Weishite Enterprises Development Limited (廣州威仕特企業發展有限公司) in 1992 and Chairman of Sichuan Z. K. C. Environmental Co. Ltd. (四川中科成環保股份有限公司). Mr. Hu is now the Chairman of Z. K. C Environmental Group Co. Ltd (中科成環保集團有限公司).

Mr. Wang Taoguang ("Mr. Wang"), aged 44, was appointed as an Executive Director of the Company in August 2008. Mr. Wang holds a bachelor's degree in law, a master's degree in economics law and a PhD in economics of Peking University, and a master's degree in finance of Bowling Green State University, the U.S.A. Mr. Wang was admitted in Harvard University, the U.S.A. as a special student (full scholarship) for post-doctoral research. Mr. Wang was Executive Director and General Manager of China Everbright Limited (中國光大控股有限公司) (stock code: 165), Vice President of Everbright Securities Company Limited (光大證券有限責任公司), Director of Shanghai Fosun Group (上海復星集團), President of Tebon Securities Company Ltd. (德邦證券) and Non-executive Director of China LotSynergy Holdings Limited (華彩控股有限公司)(stock code: 8161). He is now Vice Chairman of Everbright Real Estate Group (中國光大房地產集團公司) and Vice Chairman of Z. K. C. Environmental Investment Group Co. Ltd. (中科成環保投資集團有限公司).

Mr. Wu Xiaoming ("Mr. Wu"), aged 47, was appointed as an Executive Director and Vice President of the Company in August 2008. Mr. Wu is a senior engineer, a senior economist, a supervising engineer in utilities construction and holds a postgraduate diploma. Mr. Wu was the Party Committee Member of Xi'an Xincheng Textile Bureau (西安市新城區輕紡局), Chief Director and Party Branch Secretary of Xi'an Tangcheng Garment Factory (西安市唐城服裝廠), Chairman and General Manager of Xi'an Xindalu Real Estate Co. Ltd. (西安市新大陸房地產公司), General Manager of Xi'an Water Utilities Construction Engineering Co. Ltd. (西安市水利建設工程總公司) as well as Chairman and General Manager of Xi'an Puzhong Water and Electricity Co. Ltd. (西安市浦眾水電有限責任公司), General Manager, Deputy Secretary of the Party Committee and Assistant to Chairman of Shaanxi Huanghe Science and Technology Co. Ltd. (陝西黃河科技有限責任公司). Mr. Wu is now Director and General Manager of Beijing Beikong Environmental Engineering and Technology Co. Ltd. (北京北控環保工程技術有限公司).

Mr. Zhou Min ("Mr. Zhou"), aged 45, was appointed as an Executive Director and Vice President of the Company in August 2008. Mr. Zhou graduated with an EMBA from the Tsinghua University and is Vice Chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People's Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was Chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司), Director and Chief Financial Officer of Sichuan Z. K. C. Environmental Co. Ltd. (四川中科成環保股份有限公司). Mr. Zhou is now Director and Chief Financial Officer of Z. K. C. Environmental Group Co. Ltd. (中科成環保集團有限公司).

Mr. Li Haifeng ("Mr. Li"), aged 38, was appointed as an Executive Director and a Vice President of the Company in August 2008. Mr. Li holds a bachelor's degree in law from Peking University. He was Assistant to President of Founder Group (方正集團) and Executive Vice President of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). Mr. Li is now Chairman of the Supervisory Committee of Z. K. C Environmental Group Co. Ltd. (中科成環保集團有限公司) and Director of China Field Development Limited, responsible for exploring business opportunities in water market in the P.R.C.

Ms. Qi Xiaohong ("Ms. Qi"), aged 41, was appointed as an Executive Director of the Company in May 2008. Ms. Qi graduated from Capital Normal University and subsequently obtained a master's degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined BEHL in 1997 and is now assistant to the Chief Executive Officer, and general manager of Administration Department of BEHL, responsible for corporation administration and human resources management.

Mr. Ju Yadong (Mr. Ju), aged 56, was appointed an Executive Director of the Company in May 2008. Mr. Ju graduated from Nanjing University in 1983 and subsequently obtained a master's degree when teaching, and was promoted to associate professor. Mr. Ju has worked in fields of banking, trust funds and securities since 1992, mainly responsible for analysis of macro-economy, corporations and industries, acquisitions and mergers, market and securities as well as corporate management of owned and entrusted assets. Mr. Ju joined BEHL in 2005 as manager of Investment Department and is responsible for research on investment projects, establishment of database, and project examination and reporting for approval. Mr. Ju has accumulated rich academic knowledge and years of practical experience in operation of capital market as well as development and management of investment projects.

Independent non-executive Directors

Mr. Shea Chun Lok, Quadrant ("Mr. Shea"), aged 42, was appointed as an Independent Non-Executive Director and a member of Audit Committee of the Company in May 2002. Mr. Shea graduated from Monash University of Australia with a bachelor's degree in business. He is also a fellow member of CPA Australia, a member of Institute of Certified Public Accountants of Singapore and Hong Kong Institute of Certified Public Accountants. Mr. Shea currently serves as Financial Controller of a main board listed company in Hong Kong. Mr. Shea has been working as a company secretary and qualified accountant in various Hong Kong main board listed companies for many years. He has substantial experience as a financial controller of listed companies.

Mr. Zhang Gaobo ("Mr. Zhang GB"), aged 44, was appointed as an Independent Non-Executive Director of the Company in May 2008. Mr. Zhang GB is also a member of the Audit Committee and Chairman of the Remuneration Committee of the Company. He obtained a bachelor's degree in science from Henan University in 1985 and later graduated from Peking University with a master's degree in economics in 1988. From February 1988 to February 1991, Mr. Zhang GB was a deputy chief of the Policy Division of the Hainan Provincial Government. During his tenure with the Hainan Provincial Government, he was responsible for drafting of economic policies for the Hainan Provincial Government. From March 1991 to 1993, Mr. Zhang GB was deputy chief of Financial Markets Administration Committee of PBOC Hainan Branch and was responsible for the regulation of financial markets in Hainan Province. From January 1992 to 1994, Mr. Zhang GB was chairman of Hainan Stock Exchange Centre and had the overall responsibility for the operation of Hainan Stock Exchange Centre. Mr. Zhang GB is a partner and Chief Executive Officer of Oriental Patron Financial Group and is responsible for formulating the investment strategies, monitoring the investment performance and approving investment decisions for the group. Mr. Zhang GB is also an executive director and Chief Executive Officer of OP Financial Investments Limited (stock code: 1140), a company listed on the Stock Exchange of Hong Kong Limited and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange.

Mr. Guo Rui ("Mr. Guo"), aged 41, was appointed as an Independent Non-Executive Director in May 2008. He is also a member of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Guo is President of Paragon Investment Co. Ltd, an investment management organization that invests in real estate, clean energy, healthcare and pharmaceutics, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo also serves as director of Shanghai Xingye Investment Limited and is a former Senior Consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor's degree of computer science from Peking University and a master's degree of computer engineering from Northwestern University, U.S.A.

Ms. Hang Shijun ("Ms. Hang"), aged 67, was appointed as an Independent Non-Executive Director of the Company in August 2008. She is graduated from the Beijing Industrial University majored in Water Supply and Drainage in 1963. Ms. Hang has been working in the Beijing Municipal Engineering Design Research Institute (北京市政工程設計研究總院) since 1966 and is now the Chief Technology Officer of its Project Center. Ms. Hang is an expert in sewage treatment, solid wastes treatment and disposal as well as recycled water (reused water) technology and project.

Mr. Wang Kaijun ("Mr. Wang"), aged 49, was appointed as an Independent Non-Executive Director of the Company in August 2008. Mr. Wang holds a doctorate degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang previously worked as Deputy Technology Manager of DHV Engineering Consultancy Representative Office in the Beijing and Chief Engineer of Beijing Municipal Environmental Protection Technology Research Centre (北京市環境保護科學研究院). He is now the Professor of Department of Environmental Science and Engineering, Tsinghua University (清華大學環境科學與工程系). Mr. Wang has been working in the research, exploration and promotion of sewage control technology and policy over the years. Academically, Mr. Wang has much unique opinion and contributions on the research of hydrolysis-aerobic process theory, aerobic and anaerobic reactor theory and design, bulking sludge control of active sludge, etc. Mr. Wang also expanded the new research fields on municipal sewage hydrolysis-aerobic treatment process, high rate anaerobic reactor, sludge treatment and disposal, livestock dejection treatment and rural environmental protection, all of which exemplified his scientific research spirit of continuous advancement and innovation.

The directors present their report and the audited financial statements of the Group for the period from 1 July 2007 to 31 December 2008.

CHANGE OF COMPANY NAME

Pursuant to a special resolution of the Company's shareholders passed on 4 March 2008 and as approved by the Registrars of Companies of Bermuda and Hong Kong, the English name of the Company was changed from "Shang Hua Holdings Limited" to "Beijing Enterprises Water Group Limited" and the Chinese translation of the Company name for identification purposes was changed from "上華控股有限公司". to "北控水務集團有限公司" The Company registered with the secondary name 北控水務集團有限公司 with the Registrar of Companies of Bermuda on 23 December 2008.

CHANGE OF FINANCIAL YEAR END DATE

Pursuant to an ordinary resolution passed at the Company's special general meeting held on 4 March 2008, the Company changed its financial year end date from 30 June to 31 December with effect from 4 March 2008 to align the financial year end date with that of BEHL. Accordingly, the current accounting period covers a period of eighteen months from 1 July 2007 to 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. During the period, the Group acquired controlling equity interests in Gainstar Limited and Shenzhen Hua Qiang, which, together with their subsidiaries, are engaged in, where applicable, the construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, the provision of technical services and licensing of technical know-how that are related to sewage treatment in Mainland China, the PRC. There were no other significant changes in the nature of the Group's principal activities during the period.

RESULTS AND DIVIDEND

The Group's profit for the period from 1 July 2007 to 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 134.

The Board does not recommend the payment of a dividend for the period from 1 July 2007 to 31 December 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 27 May 2009 to 2 June 2009 (both days inclusive), for the purpose of establishing entitlements of the shareholders to vote at the annual general meeting. During this period, no share transfer will be registered.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and equity of the Group for the last five financial years/ period as extracted from the audited financial statements and the annual report of the Company for the year ended 30 June 2007 is set out on pages 135 to 136. This summary does not form part of the audited financial statements.

CHARITABLE CONTRIBUTIONS

During the period, the Group made charitable contributions totalling HK$1,136,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the period, the five largest customers of the Group together accounted for 59% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 59% of the Group's total purchases for the period. Sales to the largest customer accounted for 19% of the Group's revenue and purchases from the largest supplier accounted for 29% of the Group's purchases.

At no time during the period did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have a beneficial interest in any of the Group's five largest customers or suppliers.

EQUIPMENT

Details of movements in the equipment of the Company and the Group during the period are set out in note 15 to the financial statements.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the share capital and convertible bonds of the Company during the period, together with the reasons therefor, are set out in notes 29 and 32 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at the balance sheet date, the Company had no reserves available for distribution to shareholders (30 June 2007: Nil).

DIRECTORS

The directors of the Company during the period were:

Executive Directors

Mr. Zhang Honghai *(Chairman)*	(appointed on 7 May 2008)
Mr. Liu Kai	(appointed on 18 February 2008)
Mr. E Meng	(appointed on 18 February 2008)
Mr. Jiang Xinhao	(appointed on 3 June 2008)
Mr. Hu Xiaoyong *(Chief Executive Officer)*	(appointed on 1 August 2008)
Mr. Wang Taoguang	(appointed on 1 August 2008)
Mr. Wu Xiaoming	(appointed on 1 August 2008)
Mr. Zhou Min	(appointed on 1 August 2008)
Mr. Li Haifeng	(appointed on 1 August 2008)
Ms. Qi Xiaohong	(appointed on 7 May 2008)
Mr. Ju Yadong	(appointed on 7 May 2008)
Mr. Flynn Xuxian Huang	(resigned on 7 May 2008)
Ms. Guan Mei	(resigned on 4 March 2008)
Mr. Chase J Wong	(resigned on 31 May 2008)

Independent Non-executive Directors

Mr. Shea Chun Lok, Quadrant	
Mr. Zhang Gaobo	(appointed on 7 May 2008)
Mr. Guo Rui	(appointed on 31 May 2008)
Ms. Hang Shijun	(appointed on 1 August 2008)
Mr. Wang Kaijun	(appointed on 1 August 2008)
Mr. Chan Wai Kwong, Peter	(resigned on 7 May 2008)
Mr. So Kwok Keung	(appointed on 1 August 2007 and resigned on 31 May 2008)
Mr. Ngai Chi Yung	(resigned on 27 August 2007)

In accordance with Bye-law 99(B), Mr. Zhang Honghai, Mr. Liu Kai, Mr. E Meng, Mr. Wu Xiaoming, Ms. Qi Xiaohong and Mr. Shea Chun Lok, Quadrant shall retire by rotation from office as directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and the senior management of the Company are set out on pages 21 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the interests and short positions of the directors and their associates in the share capital and underlying shares of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in the shares and underlying shares of the Company

Name of Director	Nature of Interest	Number of shares of the Company	Approximate percentage of the issued share capital
Mr. Hu Xiaoyong	Interest of controlled corporation *(Note 1)*	1,158,166,852	48.16%
Mr. Wang Taoguang	Interest of controlled corporation *(Note 2)*	324,152,081	13.48%
Mr. Zhou Min	Interest of controlled corporation *(Note 1)*	1,158,166,852	48.16%

Notes:

1. Messrs. Hu Xiaoyong, Zhou Min and Hou Feng are interested in Tenson Investment Limited as to 52.62%, 44.94% and 2.45% respectively. Tenson Investment Limited holds 129,021,082 shares and 1,029,145,770 underlying shares and therefore is interested in 1,158,166,852 shares in total.

2. Mr. Wang Taoguang is interested in Newton Finance Holdings Limited as to 50%, which holds 125,383,413 shares and 198,768,668 underlying shares and is therefore interested in 324,152,081 shares in total.

(ii) Long positions in the shares of associated corporations

Name of Director	Number of shares of BEHL	Approximate percentage of the issued share capital
Mr. Liu Kai	6,000	0.001%
Mr. E Meng	50,000	0.004%
Mr. Jiang Xinhao	10,000	0.001%

Note: Based on the total number of issued shares of BEHL of 1,137,001,000 shares as at 31 December 2008.

(iii) Long position in underlying shares of associated corporations

Name of Director	Name of the associated corporations	Number of share options
Mr. Jiang Xinhao	BEHL	110,000

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the period, the Company has issued convertible bonds to Tenson Investment Limited and Newton Finance Holdings Limited at a conversion price of HK$0.69 per ordinary share. Messrs. Hu Xiaoyong, Zhou Min (both being Executive Directors of the Company) and Hou Feng are interested in Tenson Investment Limited as to 52.62%, 44.94% and 2.45% respectively. Mr. Wang Taoguang, an Executive Director of the Company, is interested in Newton Finance Holdings Limited as to 50%. As at 31 December 2008, Tenson Investment Limited and Newton Finance Holdings Limited have interests in the Company's convertible bonds with principal amounts of HK$553,699,238 (HK$315,003,363 of which has been issued as at 31 December 2008) and HK$137,150,381 respectively.

Except as disclosed above, no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period from 1 July 2007 to 31 December 2008.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Interests in the Shares and underlying shares

Name	Number of ordinary shares and underlying shares held, capacity and nature of interest: Directly beneficially owned	Through controlled corporation	Total	Percentage of the Company's issued share capital
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	1,997,000,000 [(a)]	–	1,997,000,000	83.03%
BEHL	–	1,997,000,000 [(b)]	1,997,000,000	83.03%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	–	1,997,000,000 [(c)]	1,997,000,000	83.03%
Beijing Enterprises Group Company Limited ("Beijing Enterprises Group") 北京控股集團有限公司	–	1,997,000,000 [(d)]	1,997,000,000	83.03%
Tenson Investment Limited[(e)]	1,158,166,852	–	1,158,166,852	48.16%
Pioneer Wealth Limited[(f)]	382,897,875	–	382,897,875	15.92%
Besto Holdings Limited[(g)]	389,152,081	–	389,152,081	16.18%
Newton Finance Holdings Limited[(h)]	324,152,081	–	324,152,081	13.48%

Notes:

(a) BE Environmental holds 1,547,000,000 shares and 450,000,000 underlying shares and therefore is interested in 1,997,000,000 shares in total.

(b) BEHL is deemed to be interested in the 1,997,000,000 shares by virtue of its controlling interests in its wholly owned subsidiary, BE Environmental.

(c) The interest disclosed includes the shares owned by BEHL as detailed in note (b). BEHL is held directly as to 36.17% by BE Group BVI. Accordingly, BE Group BVI is deemed to be interested in the shares owned by BEHL.

(d) The interest disclosed includes the shares owned by BE Group BVI as detailed in note (c). BE Group BVI is held directly as to 100% by Beijing Enterprises Group. Accordingly, Beijing Enterprises Group is deemed to be interested in the shares held by BE Group BVI.

(e) The share capital of Tenson Investment Limited is beneficially owned as to 52.62% by Mr. Hu Xiaoyong and as to 44.94% by Mr. Zhou Min, both of whom are regarded as interested in the 1,158,166,852 shares in which Tenson Investment Limited is interested.

(f) The entire share capital of Pioneer Wealth Limited is beneficially owned by Ms. Lucy Du and Ms. Helen Zhang, independent third parties of the Company.

(g) The entire share capital of Besto Holdings Limited is beneficially owned by Ms. Liang Terisa Yutinnie.

(h) The share capital of Newton Finance Holdings Limited is beneficially owned as to 50% by Mr. Wang Taoguang and Ms. Zhang Lan, both of whom are regarded as interested in the 324,152,081 shares in which Newton Finance Holdings Limited is interested.

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

During the period ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument policy of the employee of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance and continued to uphold a good, solid and sensible framework of corporate governance and has compiled with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange during the period ended 31 December 2008, except for the certain deviation. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report.

AUDITORS

Deloittee Touche Tohmatsu retired on the expiry of the term of office as auditors of the Company with effect from the conclusion of the 2006 Annual General Meeting of the Company held on 29 November 2006. HLM & Co. has been appointed as the auditors of the Company with effect from 29 November 2006. The reason for the change of the auditors was that the Company and Deloitte Touche Tohmatsu could not reach an agreement on the audit fees for the financial year ended 30 June 2007.

During the period, HLM & Co. resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. HLM & Co. resigned as auditors of the Company in view of the Company's requirement to align its appointment of auditors with that of its controlling shareholder. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant events after the balance sheet date of the Group are set out in note 49 to the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the period from 1 July 2007 to 31 December 2008 were approved by the board of directors on 30 March 2009.

On behalf of the Board

Zhang Honghai
CHAIRMAN

Hong Kong, 30 March 2009

ERNST & YOUNG
安 永

To the shareholders of Beijing Enterprises Water Group Limited
(Formerly known as Shang Hua Holdings Limited)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Beijing Enterprises Water Group Limited set out on pages 35 to 134, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 1 July 2007 to 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the period from 1 July 2007 to 31 December 2008 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
30 March 2009

	Notes	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000
REVENUE	7	**337,681**	19,899
Cost of sales		**(182,878)**	(19,695)
Gross profit		**154,803**	204
Other income and gains, net	7	**11,388**	1,362
Administrative expenses		**(42,294)**	(4,186)
Other operating expenses, net		**(7,677)**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	8	**116,220**	(2,620)
Finance costs	9	**(60,273)**	–
Share of loss of an associate	20	**(811)**	–
PROFIT/(LOSS) BEFORE TAX		**55,136**	(2,620)
Tax	12	**(12,234)**	53
PROFIT/(LOSS) FOR THE PERIOD/YEAR		**42,902**	(2,567)
Attributable to:			
Shareholders of the Company	13	**30,984**	(2,567)
Minority interests		**11,918**	–
		42,902	(2,567)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic		**HK3.82 cents**	(HK3.08 cents)
Diluted		**HK3.72 cents**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	31 December 2008 HK$'000	30 June 2007 HK$'000
ASSETS			
Non-current assets:			
Equipment	15	**13,414**	71
Goodwill	16	**1,466,915**	–
Operating concessions	17	**429,589**	–
Other intangible assets	18	**1,656**	–
Interest in an associate	20	**25,313**	–
Available-for-sale investment	21	**454**	–
Trade receivables	24	**1,238,309**	–
Prepayments, deposits and other receivables	25	**119,324**	–
Deferred tax assets	36	**27,112**	–
Total non-current assets		**3,322,086**	71
Current assets:			
Inventories	22	**4,133**	–
Amounts due from contract customers	23	**200,462**	–
Trade receivables	24	**144,376**	2,104
Prepayments, deposits and other receivables	25	**302,099**	147
Financial assets at fair value through profit or loss	27	**–**	431
Restricted cash and pledged deposits	28	**8,066**	75
Cash and cash equivalents	28	**834,936**	29,287
Total current assets		**1,494,072**	32,044
TOTAL ASSETS		**4,816,158**	32,115

	Notes	31 December 2008 HK$'000	30 June 2007 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	29	**240,507**	8,328
Reserves	30(a)(i)	**1,517,794**	23,108
		1,758,301	31,436
Minority interests		**239,656**	–
TOTAL EQUITY		**1,997,957**	31,436
Non-current liabilities:			
Other payables and accruals	38	**69,328**	–
Bank and other borrowings	31	**986,868**	–
Convertible bonds	32	**669,275**	–
Finance lease payable	33	**10,559**	–
Provision for major overhauls	34	**69,006**	–
Deferred income	35	**1,178**	–
Deferred tax liabilities	36	**59,707**	–
Total non-current liabilities		**1,865,921**	–
Current liabilities:			
Trade payables	37	**85,195**	313
Other payables and accruals	38	**632,205**	366
Income tax payable		**17,328**	–
Bank and other borrowings	31	**212,241**	–
Finance lease payable	33	**5,311**	–
Total current liabilities		**952,280**	679
TOTAL LIABILITIES		**2,818,201**	679
TOTAL EQUITY AND LIABILITIES		**4,816,158**	32,115

		Attributable to shareholders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note 30(a)(ii))	Convertible bond equity reserve HK$'000 (note 32)	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 30(a)(iii))	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 July 2006		8,328	–	(400)	–	323	–	25,101	33,352	–	33,352
Exchange realignment and total income and expense for the year recognised directly in equity		–	–	–	–	651	–	–	651	–	651
Loss for the year		–	–	–	–	–	–	(2,567)	(2,567)	–	(2,567)
Total income and expense for the year		–	–	–	–	651	–	(2,567)	(1,916)	–	(1,916)
At 30 June 2007 and 1 July 2007		8,328	– *	(400) *	– *	974 *	– *	22,534 *	31,436	–	31,436
Share issue expenses	29(b)	–	(2,968)	–	–	–	–	–	(2,968)	–	(2,968)
Exchange realignment		–	–	–	–	(3,635)	–	–	(3,635)	(362)	(3,997)
Total income and expense for the period recognised directly in equity		–	(2,968)	–	–	(3,635)	–	–	(6,603)	(362)	(6,965)
Profit for the period		–	–	–	–	–	–	30,984	30,984	11,918	42,902
Total income and expense for the period		–	(2,968)	–	–	(3,635)	–	30,984	24,381	11,556	35,937
Issue of new shares	29(b)	80,679	768,237	–	–	–	–	–	848,916	–	848,916
Issue of convertible bonds		–	–	–	364,524	–	–	–	364,524	–	364,524
Conversion of convertible bonds	29(b)	151,500	460,211	–	(120,780)	–	–	–	490,931	–	490,931
Acquisition of subsidiaries	40	–	–	–	–	–	–	–	–	228,327	228,327
Disposal of subsidiaries	41	–	–	–	–	(1,887)	–	–	(1,887)	–	(1,887)
Dividend paid to a minority shareholder		–	–	–	–	–	–	–	–	(227)	(227)
Transfer to reserves		–	–	–	–	–	17,902	(17,902)	–	–	–
At 31 December 2008		240,507	1,225,480 *	(400) *	243,744 *	(4,548) *	17,902 *	35,616 *	1,758,301	239,656	1,997,957

* *These reserve accounts comprise the consolidated reserves of HK$1,517,794,000 (30 June 2007: HK$23,108,000) in the consolidated balance sheet as at 31 December 2008.*

	Notes	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**55,136**	(2,620)
Adjustments for:			
Bank interest income	7	**(9,193)**	(1,067)
Dividend income from financial assets at fair value through profit or loss	7	**(137)**	–
Gain on disposal of financial assets at fair value through profit or loss, net	7	**(718)**	(25)
Gain on disposal of subsidiaries	7	**(760)**	–
Depreciation	8	**1,230**	40
Amortisation of operating concessions	8	**5,799**	–
Amortisation of other intangible assets	8	**78**	–
Impairment of trade receivables, net	8	**1,679**	–
Impairment of other receivables, net	8	**205**	–
Loss on disposal of items of equipment, net	8	**17**	13
Provision for major overhauls	34	**7,285**	–
Finance costs	9	**65,524**	–
Share of loss of an associate		**811**	–
Operating profit before working capital changes		**126,956**	(3,659)
Increase in inventories		**(1,247)**	–
Increase in amounts due from contract customers		**(90,893)**	–
Increase in trade receivables		**(23,775)**	–
Increase in prepayments, deposits and other receivables		**(341,204)**	(2,044)
Decrease in trade payables		**(20,197)**	(65)
Decrease in other payables and accruals		**(63,768)**	–
Exchange adjustments		**(1,204)**	–
Cash used in operations		**(415,332)**	(5,768)
Mainland China income tax paid		**(2,351)**	–
Net cash outflow from operating activities		**(417,683)**	(5,768)

	Notes	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of equipment		**(4,591)**	(27)
Purchase of other intangible assets		**(522)**	–
Acquisition of subsidiaries	*40*	**18,274**	–
Disposal of subsidiaries	*41*	**9,748**	–
Purchase of financial assets at fair value through profit or loss		**(48,642)**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**49,791**	1,276
Increase in restricted cash and pledged deposits		**(7,991)**	–
Interest received	*7*	**9,193**	1,067
Dividend received from financial assets at fair value through profit or loss	*7*	**137**	–
Net cash inflow from investing activities		**25,397**	2,316
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new ordinary shares	*29(b)(i)*	**98,800**	–
Share issue expenses	*29(b)*	**(2,968)**	–
Issue of convertible bonds	*32*	**900,000**	–
New loans		**504,384**	–
Repayment of loans		**(272,251)**	–
Capital element of finance lease rental payments		**(714)**	–
Interest paid		**(28,860)**	–
Interest element of finance lease rental payments		**(643)**	–
Dividend paid to a minority shareholder		**(227)**	–
Net cash inflow from financing activities		**1,197,521**	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**805,235**	(3,452)
Cash and cash equivalents at beginning of period/year		**29,287**	32,088
Effect of foreign exchange rate changes, net		**414**	651
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	*28*	**834,936**	29,287

BALANCE SHEET

31 December 2008

	Notes	31 December 2008 HK$'000	30 June 2007 HK$'000
ASSETS			
Non-current assets:			
Equipment	15	**466**	–
Interests in subsidiaries	19	**2,885,694**	29,199
Total non-current assets		**2,886,160**	29,199
Current assets:			
Prepayments, deposits and other receivables	25	**200**	–
Cash and cash equivalents	28	**15,376**	2,307
Total current assets		**15,576**	2,307
TOTAL ASSETS		**2,901,736**	31,506
EQUITY AND LIABILITIES			
Equity:			
Issued capital	29	**240,507**	8,328
Reserves	30(b)	**1,445,226**	23,170
TOTAL EQUITY		**1,685,733**	31,498
Non-current liabilities:			
Convertible bonds	32	**669,275**	–
Current liabilities:			
Other payables and accruals	38	**546,728**	8
TOTAL LIABILITIES		**1,216,003**	8
TOTAL EQUITY AND LIABILITIES		**2,901,736**	31,506

1. CORPORATE INFORMATION

Beijing Enterprises Water Group Limited (the "Company", formerly known as Shang Hua Holdings Limited) is a limited liability company incorporated in Bermuda. Pursuant to a special resolution of the Company's shareholders passed on 4 March 2008 and as approved by the Registrars of Companies of Bermuda and Hong Kong, the English name of the Company was changed from "Shang Hua Holdings Limited" to "Beijing Enterprises Water Group Limited" and the Chinese translation of the Company name for identification purposes was changed from "上華控股有限公司" to "北控水務集團有限公司".

During the period from 1 July 2007 to 31 December 2008, the Company and its subsidiaries (collectively the "Group") were involved in the following principal activities:

- construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, the provision of technical services and licensing of technical know-how that are related to sewage treatment in Mainland China, the People's Republic of China (the "PRC").

- trading of computer and related products in Hong Kong and Mainland China.

As at 31 December 2008 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Environmental Construction Limited ("BE Environmental", formerly known as Lucky Crown Management Limited), which is incorporated in the British Virgin Islands, and in the opinion of the directors, the ultimate holding company is 北京控股集團有限公司 ("Beijing Enterprises Group"), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

2. CHANGE OF FINANCIAL YEAR END DATE

Pursuant to an ordinary resolution passed at the Company's special general meeting held on 4 March 2008, the Company changed its financial year end date from 30 June to 31 December with effect from 4 March 2008 to align the financial year end date with that of Beijing Enterprises Holdings Limited ("BEHL"), an intermediate holding company whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Owing to the change of the financial year end date in current period, the current period's financial statements cover a period of eighteen months from 1 July 2007 to 31 December 2008. Accordingly, the comparative amounts presented for the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes, which were prepared for the year ended 30 June 2007, are not comparable.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which had been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 July 2007 to 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the period has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in the consolidated balance sheet as goodwill or in the income statement as an excess over cost of acquisition, where appropriate.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current period's financial statements:

HKAS 1 Amendment	*Capital Disclosures*
HKFRS 7	*Financial Instruments: Disclosures*
HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*
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*

Except for HK(IFRIC)-Int 12 giving rise to new and revised accounting policies and additional disclosures as further described below, the adoption of the other new standard, interpretations and amendments has had no significant financial effect on these financial statements.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 12 has been applied by the Group since the acquisition during the period ended 31 December 2008 of subsidiaries which are engaged in sewage and water treatment operations under service concession arrangements.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* [2]
HKFRS 8	*Operating Segments* [2]
HKAS 1 (Revised)	*Presentation of Financial Statements* [2]
HKAS 23 (Revised)	*Borrowing Costs* [2]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [2]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embeddeds Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [2]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [5]

[1] *Effective for annual periods beginning on or after 1 July 2009*

[2] *Effective for annual periods beginning on or after 1 January 2009*

[3] *Effective for annual periods beginning on or after 1 July 2008*

[4] *Effective for annual periods beginning on or after 1 October 2008*

[5] *Effective for transfers of assets from customers received on or after 1 July 2009*

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those changes that are relevant to the Group and are expected to significantly affect the Group is as follows:

The HKAS 27 Amendment requires all dividends from subsidiaries, jointly-controlled entities or associates to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendment has no impact on the consolidated financial statements.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised HKAS 27 changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The amendments to HKFRS 7 are made to enhance disclosures about fair value measurement and liquidity risk, and do not have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in the income statement, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

Apart from the above, in October 2008, the HKICPA has also issued its first *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

* *Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

(c) HKAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(d) HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

(e) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(f) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(g) HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any accumulated impairment losses.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its holding companies;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Equipment and depreciation

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of equipment to its estimated residual value over its estimated useful life. The estimated useful lives of different categories of equipment are as follows:

Office equipment	5 years
Motor vehicles	3 to 6 years
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter

Where parts of an item of equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Service concession arrangements

Consideration given by the grantor

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for “Investments and other financial assets” below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for “Intangible assets (other than goodwill)” below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for “Construction contracts” below.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Operating services

Revenue and costs relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence, that is (a) to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage and water treatment plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions represent the rights to operate sewage and water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful life of 5 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill *(Continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and an available-for-sale investment, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale investment

Available-for-sale investment is a non-derivative financial asset in an unlisted entity that is designated as available for sale. After initial recognition, the available-for-sale investment is stated at cost less any accumulated impairment losses as the fair value of the equity interest in the unlisted entity cannot be reliably measured, which is because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

In relation to trade receivables and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale investment carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on this asset are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables and accruals, bank and other borrowings and a finance lease payable are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of best estimate of the expenditure required to settle the present obligation at the balance sheet date and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond equity reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds *(Continued)*

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the shares issued is recorded in the share premium account. When convertible bonds are redeemed, any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement and that of the equity component is transferred to retained profits as a movement in reserves. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion option.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction of a sewage treatment plant under the terms of a service concession agreement is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;

(b) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for “Contracts for services” above;

(c) from licensing of technical know-how, when the related technique has been delivered and accepted;

(d) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(g) from the trading of listed investments, on the trade dates; and

(h) dividend income, when the right to receive payment has been established.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Employee benefits – Pension schemes

The Group has joined a number of defined contribution pension schemes organised by certain PRC provincial or municipal governments for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

3.4 SUMMARY OF SIGNICIANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the subsidiaries and the associate established in Mainland China are Renminbi ("RMB"). As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the period. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the subsidiaries established in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rate for the period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

The major judgements, estimations and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Classification between operating concessions and trade receivables

As explained in note 3.4 to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and trade receivables carried as assets in the consolidated balance sheet as at 31 December 2008 were HK$429,589,000 (30 June 2007: Nil) and HK$1,382,685,000 (30 June 2007: Nil), respectively. Further details of which are set out in notes 17 and 24 to the financial statements, respectively.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of a sewage treatment plant under the terms of a service concession agreement is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined from the gross profit margins of market comparables by identifying relevant peer groups, which are listed in various stock exchanges in the world. Criteria for selection included:

(i) the peer firm must be doing business on construction of infrastructure, majoring in sewage treatment facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Percentage of completion of construction work and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction and service work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

Provision for major overhauls of sewage and water treatment plants to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence and that is (a) to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructures, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the sewage and water treatment plants over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated balance sheet as at 31 December 2008 was HK$69,006,000 (30 June 2007: Nil), further details of which are set out in note 34 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Useful lives and residual values of equipment and intangible assets (other than goodwill)

The Group's management determines the residual values, useful lives and related depreciation/amortisation charges for the Group's equipment and intangible assets. This estimate is based on the historical experience of the actual residual values and useful lives of equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where residual values or useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of equipment and intangible assets (other than goodwill) carried as assets in the consolidated balance sheet as at 31 December 2008 were HK$13,414,000 (30 June 2007: HK$71,000) and HK$431,245,000 (30 June 2007: Nil), respectively, further details of which are set out in notes 15, 17 and 18 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill in aggregate carried as an asset in the consolidated balance sheet as at 31 December 2008 was HK$1,466,915,000 (30 June 2007: Nil), details of which are set out in note 16 to the financial statements.

Impairment of equipment and intangible assets (other than goodwill)

The carrying amounts of items of equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 3.4 to these financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Impairment of trade receivables and other receivables

The policy for provision for impairment of trade receivables and other receivables of the Group is based on the evaluation of collectibility and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade receivables and other receivables carried as assets in the consolidated balance sheet as at 31 December 2008 were HK$1,382,685,000 (30 June 2007: HK$2,104,000) and HK$421,423,000 (30 June 2007: HK$147,000), respectively, further details of which are set out in notes 24 and 25 to the financial statements.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of income tax payable carried as liabilities in the consolidated balance sheet as at 31 December 2008 was HK$17,328,000 (30 June 2007: Nil).

Deferred tax assets relating to certain temporary differences and tax losses are not recognised as management considered these losses were arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets and liabilities carried as assets and liabilities in the consolidated balance sheet as at 31 December 2008 were HK$27,112,000 (30 June 2007: Nil) and HK$59,707,000 (30 June 2007: Nil), respectively, details of which are set out in note 36 to the financial statements.

5. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage and water treatment businesses. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and water treatment plants for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the sewage and water treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 40 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is entitled to use all the property, plant and equipment of the sewage and water treatment plants, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the sewage and water treatment plants, and retain the beneficial entitlement to any residual interest in the sewage and water treatment plants at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the sewage and water treatment plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between financial assets (loans and receivables) and intangible assets (operating concessions) are set out under the heading of "Service concession arrangements" in note 3.4 to the financial statements.

As at 31 December 2008, the Group had 21 service concession arrangements on sewage treatment and 1 service concession arrangement on water treatment and distribution with various governmental authorities in Mainland China and a summary of the major terms of each service concession arrangement is set out as follows:

5. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
1.	江油中科成污水淨化有限公司	江油市污水處理廠一期	Jiangyou, Sichuan Province, the PRC	江油市人民政府	BOT	25,000	30 years from 2002 to 2032
2.	江油中科成污水淨化有限公司	江油市污水處理廠二期	Jiangyou, Sichuan Province, the PRC	江油市人民政府	BOT	25,000	30 years from 2007 to 2037
3.	成都雙流中科成污水淨化有限公司	雙流縣污水處理廠	Shuangliu, Sichuan Province, the PRC	雙流縣人民政府	BOT	25,000	20 years from 2004 to 2024
4.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT	100,000	30 years from 2002 to 2032
5.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠二期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT	50,000	30 years from 2003 to 2033
6.	成都華陽中科成污水淨化有限公司	雙流縣華陽污水處理廠	Shuangliu, Sichuan Province, the PRC	雙流縣人民政府	BOT	40,000	20 years (Not yet started)
7.	長沙中科成污水淨化有限公司	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業管理局	TOT	180,000	20 years from 2004 to 2024
8.	青島上馬中科成污水淨化有限公司	青島市城陽區上馬污水處理廠	Qingdao, Shandong Province, the PRC	青島市城陽區城市規劃建設管理局	BOT	40,000	20 years from 2008 to 2028
9.	青島膠南中科成污水淨化有限公司	膠南市污水處理廠	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設局	BOT	60,000	20 years from 2006 to 2026

5. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
10.	青島中科成污水淨化有限公司	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	膠州市城鄉建設局	BOT	50,000	20 years from 2004 to 2024
11.	菏澤中科成污水淨化有限公司	菏澤市污水處理廠	Heze, Shandong Province, the PRC	菏澤市建設局	TOT	60,000	25 years from 2008 to 2032
12.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT	100,000	25 years from 2008 to 2033
13.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
14.	台州市路橋中科成污水淨化有限公司	路橋污水處理廠	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局	BOT/TOT	40,000	27 years from 2007 to 2034
15.	成都龍泉中科成污水淨化有限公司	龍泉驛區蘆溪河污水處理廠	Chengdu, Sichuan Province, the PRC	成都市龍泉驛區國有資產投資經營有限公司	BOT	20,000	25 years (Not yet started)
16.	濟南十方水質淨化有限公司	濟南高新區水質淨化一廠	Jinan, Shandong Province, the PRC	濟南高新技術產業開發區中心	BOT/TOT	10,000	30 years from 2008 to 2038
17.	彭州中科成污水淨化有限公司	彭州第二污水處理廠	Pengzhou, Sichuan Province, the PRC	彭州市興彭建設投資經營有限公司	BOT	15,000	25 years (Not yet started)

5. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
18.	佛山市三水中科成水質淨化有限公司	佛山市三水區中心工業園南部污水處理廠	Foshan, Guangdong Province, the PRC	佛山市三水工業園區管理委員會	BOT	50,000	22 years (Not yet started)
19.	永州市北控污水淨化有限公司	永州市下河綫污水處理廠	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT	50,000	30 years (Not yet started)
20.	深圳華強豐泰投資有限公司 ("Hua Qiang Feng Tai")	深圳市龍崗區橫岭污水處理廠	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT	200,000	25 years from 2007 to 2032
21.	沾化華強水務環保有限公司 ("Hua Qiang Zhanhua")	沾化縣生態皮業城污水處理廠	Zhanhua, Shandong Province, the PRC	沾化縣人民政府	BOT	15,000	30 years from 2008 to 2038
22.	濱州華強西海水務有限公司 ("Hua Qiang Xihai") #	濱州市西海供水工程	Binzhou, Shandong Province, the PRC	濱州市人民政府	BOT	50,000	40 years from 2006 to 2046

\# *Except for Hua Qiang Xihai operating under a service concession arrangement on water treatment and distribution, all other operators' service concession arrangements are on sewage treatment.*

Pursuant to the service concession agreements signed, the Group are granted the rights to use the property, plant and equipment of the sewage and water treatment plants and related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective service concession periods. As at 31 December 2008, the Group was in the process of applying for the changing of registration of the title certificates of certain land use rights and buildings of certain sewage treatment plants to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

As at 31 December 2008, certain of the property, plant and equipment of the sewage treatment plants and the sewage treatment concession rights were pledged to secure certain bank loans granted to the Group (notes 17 and 31(a)(i)).

6. 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 structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business 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. Particulars of the business segments are summarised as follows:

(a) the sewage treatment segment engages in the operation of sewage treatment;

(b) the sewage technical services segment engages in the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment;

(c) the construction services segment engages in the construction of sewage and water treatment plants; and

(d) the corporate and others segment comprises the operation of water treatment and distribution, the trading of computer and related products and corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales are transacted with reference to the prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the period from 1 July 2007 to 31 December 2008 and for the year ended 30 June 2007:

Group

Period from 1 July 2007 to 31 December 2008

	Sewage treatment *HK$'000*	Sewage technical services *HK$'000*	Construction services *HK$'000*	Corporate and others *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue:						
Sales to external customers	138,224	51,071	131,343	17,043	–	337,681
Intersegment sales	–	5,538	–	–	(5,538)	–
Other income and gains, net	225	–	–	355	–	580
Total	138,449	56,609	131,343	17,398	(5,538)	338,261
Segment results	59,687	52,395	17,214	(23,884)	–	105,412
Unallocated income and gains, net						10,808
Profit from operating activities						116,220
Finance costs						(60,273)
Share of loss of an associate						(811)
Profit before tax						55,136
Tax						(12,234)
Profit for the period						42,902

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

Period from 1 July 2007 to 31 December 2008 *(Continued)*

	Sewage treatment HK$'000	Sewage technical services HK$'000	Construction services HK$'000	Corporate and others HK$'000	Eliminations HK$'000	Total HK$'000
Assets and liabilities						
Segment assets	2,018,691	551,852	249,929	2,387,540	(1,287,735)	3,920,277
Interest in an associate	–	–	–	25,313	–	25,313
	2,018,691	551,852	249,929	2,412,853	(1,287,735)	3,945,590
Unallocated assets						870,568
Total assets						4,816,158
Segment liabilities	464,092	961,784	52,101	666,670	(1,287,735)	856,912
Unallocated liabilities						1,961,289
Total liabilities						2,818,201
Other segment information:						
Depreciation	742	278	–	210	–	1,230
Amortisation of operating concessions	5,412	–	–	387	–	5,799
Amortisation of other intangible assets	–	78	–	–	–	78
Impairment/(reversal of impairment) of trade receivables and other receivables, net	1,953	(69)	–	–	–	1,884
Provision for major overhauls	7,216	–	–	69	–	7,285
Capital expenditure	588	552	4	3,969	–	5,113

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

Year ended 30 June 2007

	Sewage treatment *HK$'000*	Sewage technical services *HK$'000*	Construction services *HK$'000*	Corporate and others *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*
Segment revenue:						
Sales to external customers	–	–	–	19,899	–	19,899
Segment results	–	–	–	(2,650)	–	(2,650)
Unallocated income and gains						1,362
Unallocated expenses						(1,332)
Loss from operating activities						(2,620)
Finance costs						–
Loss before tax						(2,620)
Tax						53
Loss for the year						(2,567)
Assets and liabilities						
Segment assets	–	–	–	2,322	–	2,322
Unallocated assets						29,793
Total assets						32,115
Segment liabilities	–	–	–	665	–	665
Unallocated liabilities						14
Total liabilities						679
Other segment information:						
Depreciation	–	–	–	40	–	40
Capital expenditure	–	–	–	27	–	27

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue, and certain asset and expenditure information for the Group's geographical segments for the period from 1 July 2007 to 31 December 2008 and for the year ended 30 June 2007:

Group

	Hong Kong		Mainland China		Eliminations		Consolidated	
	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000
Segment revenue:								
Sales to external customers	10,956	17,775	326,725	2,124	–	–	337,681	19,899
Other income and gains, net	146	–	434	–	–	–	580	–
Total	11,102	17,775	327,159	2,124	–	–	338,261	19,899
Other segment information:								
Segment assets	949,424	2,322	3,846,363	–	(875,510)	–	3,920,277	2,322
Interest in an associate	–	–	25,313	–	–	–	25,313	–
	949,424	2,322	3,871,676	–	(875,510)	–	3,945,590	2,322
Unallocated assets							870,568	29,793
Total assets							4,816,158	32,115
Capital expenditure	658	27	4,455	–	–	–	5,113	27

7. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage treatment, net of business tax and government surcharges; (2) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (3) the value of licence fees, net of business tax and government surcharges; (4) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and (5) the imputed interest income on service concession arrangements.

An analysis of the Group's revenue, other income and gains, net, is as follows:

	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Revenue		
Sewage treatment services *	**138,224**	–
Construction contracts *	**131,343**	–
Consultancy services	**23,881**	–
Licence fees	**27,190**	–
Sale of water	**6,087**	–
Sale of goods	**10,956**	19,899
	337,681	19,899

7. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000
Other income		
Bank interest income	9,193	1,067
Gross rental income #	268	–
Pipeline installation income	179	–
Dividend income from financial assets at fair value through profit or loss	137	–
Others	133	245
	9,910	1,312
Gains, net		
Gain on disposal of financial assets at fair value through profit or loss, net	718	25
Gain on disposal of subsidiaries *(note 41)*	760	–
Foreign exchange differences, net	–	25
	1,478	50
Other income and gains, net	11,388	1,362

* *Imputed interest income under service concession arrangements amounting to HK$60,241,000 and HK$2,398,000 are included in the revenue derived from "Sewage treatment services" and "Construction contracts", respectively.*

\# *The Group leased certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the period. Further details of the operating lease arrangements are set out in note 44(a) to the financial statements.*

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Notes	Period from 1 July 2007 to 31 December 2008 HK$'000	Year ended 30 June 2007 HK$'000
Cost of sewage treatment services rendered		**47,889**	–
Cost of construction contracts		**113,402**	–
Cost of consultancy services rendered		**2,651**	–
Cost of licensing		**26**	–
Cost of water sold		**2,318**	–
Cost of goods sold		**10,793**	19,695
Depreciation	*15*	**1,230**	40
Amortisation of operating concessions *	*17*	**5,799**	–
Amortisation of other intangible assets *	*18*	**78**	–
Minimum lease payments under operating leases for land and buildings		**1,878**	293
Auditors' remuneration		**3,207**	166
Employee benefits expense (including directors' remuneration – *note 10*):			
Salaries, allowances and benefits in kind		**24,532**	2,290
Net pension scheme contributions		**917**	44
Welfare and other expenses		**3,397**	169
		28,846	2,503
Loss on disposal of items of equipment, net		**17**	13
Impairment of trade receivables, net	*24(b)*	**1,679**	–
Impairment of other receivables, net	*25(b)*	**205**	–
Fair value loss on financial assets at fair value through profit or loss		**–**	12
Foreign exchange differences, net		**5,262**	(25)

* *The amortisation of operating concessions and other intangible assets for the period are included in "Cost of sales" and "Administrative expenses" on the face of the consolidated income statement, respectively.*

9. FINANCE COSTS

		Group	
		Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	Notes	***HK$'000***	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years		**28,061**	–
Interest on other loans		**799**	–
Imputed interest on convertible bonds	*32*	**35,426**	–
Interest on a finance lease		**643**	–
Total interest expense		**64,929**	–
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*34*	**595**	–
Total finance costs		**65,524**	–
Less: Interest included in cost of construction contracts		**(5,251)**	–
		60,273	–

10. DIRECTORS' REMUNERATION

Directors' remuneration for the period, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Fees:		
Executive directors	**1,273**	530
Independent non-executive directors	**432**	188
	1,705	718
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**1,153**	46
Pension scheme contributions	**27**	–
	1,180	46
	2,885	764

10. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Mr. Shea Chun Lok, Quadrant	**108**	68
Mr. Zhang Gaobo	**78**	–
Mr. Guo Rui	**58**	–
Ms. Hang Shijun	**42**	–
Mr. Wang Kaijun	**42**	–
Mr. Chan Wai Kwong, Peter	**50**	57
Mr. So Kwok Keung	**45**	–
Mr. Ngai Chi Yung	**9**	60
Mr. Chan Yiu Kwong	**–**	3
	432	188

There were no other emoluments payable to the independent non-executive directors during the period (year ended 30 June 2007: Nil).

10. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Period from 1 July 2007 to 31 December 2008				
Mr. Zhang Honghai	**–**	**–**	**–**	**–**
Mr. Liu Kai	**92**	**–**	**–**	**92**
Mr. E Meng	**92**	**–**	**–**	**92**
Mr. Jiang Xinhao	**57**	**–**	**–**	**57**
Mr. Hu Xiaoyong	**42**	**460**	**5**	**507**
Mr. Wang Taoguang	**42**	**–**	**–**	**42**
Mr. Wu Xiaoming	**42**	**–**	**–**	**42**
Mr. Zhou Min	**42**	**384**	**5**	**431**
Mr. Li Haifeng	**42**	**309**	**5**	**356**
Ms. Qi Xiaohong	**66**	**–**	**–**	**66**
Mr. Ju Yadong	**66**	**–**	**–**	**66**
Mr. Flynn Xuxian Huang	**–**	**–**	**–**	**–**
Ms. Guan Mei	**–**	**–**	**–**	**–**
Mr. Chase J Wong	**690**	**–**	**12**	**702**
	1,273	**1,153**	**27**	**2,453**
Year ended 30 June 2007				
Mr. Flynn Xuxian Huang	–	–	–	–
Ms. Guan Mei	–	–	–	–
Mr. Chase J Wong	52	15	–	67
Ms. Zhou Liping	478	31	–	509
	530	46	–	576

There was no arrangement under which a director waived or agreed to waive any remuneration during the period (year ended 30 June 2007: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the period included three (year ended 30 June 2007: one) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (year ended 30 June 2007: four) non-director, highest paid employees for the period are as follows:

	Period from 1 July 2007 to 31 December 2008 *HK$'000*	Year ended 30 June 2007 *HK$'000*
Salaries, allowances and benefits in kind	**1,214**	1,082
Pension scheme contributions	**29**	29
	1,243	1,111

The remuneration of the two non-director, highest paid employees for the period ended 31 December 2008 (year ended 30 June 2007: four) each fell within the range of nil to HK$1,000,000.

12. TAX

No provision of Hong Kong profits tax has been made for the current period as the Group did not generate any assessable profits arising in Hong Kong during the period (year ended 30 June 2007: Nil).

The income tax provision in respect of operations in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the period/year based on existing legislation, interpretations and practices in respect thereof. During the 5th session of the 10th National People's Congress of the PRC, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New PRC CIT Law") was approved and became effective from 1 January 2008. The New PRC CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries in Mainland China enjoy income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage treatment.

12. TAX *(Continued)*

	Group	
	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Current – PRC:		
Hong Kong	**–**	–
Mainland China	**3,905**	–
Underprovision/(overprovision) in prior periods	**78**	(53)
Deferred *(note 36)*	**8,251**	–
Total tax charge/(credit) for the period/year	**12,234**	(53)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries/jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – Period from 1 July 2007 to 31 December 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(36,300)		91,436		55,136	
Tax at the statutory tax rate	(5,988)	16.5	22,859	25.0	16,871	30.6
Lower tax rate of specific provinces or enacted by local authority	–	–	(4,534)	(5.0)	(4,534)	(8.2)
Tax concession enjoyed	–	–	(8,877)	(9.7)	(8,877)	(16.1)
Adjustments in respect of current tax of previous periods	–	–	78	0.1	78	0.1
Loss attributable to an associate	–	–	203	0.2	203	0.4
Income not subject to tax	(5,747)	15.8	(1,814)	(2.0)	(7,561)	(13.7)
Expenses not deductible for tax	6,052	(16.6)	2,593	2.9	8,645	15.6
Tax losses utilised from previous periods	(15)	–	–	–	(15)	–
Tax losses not recognised as deferred tax assets	5,698	(15.7)	1,726	1.9	7,424	13.5
Tax charge at the Group's effective rate	–	–	12,234	13.4	12,234	22.2

12. TAX *(Continued)*

Group – Year ended 30 June 2007

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before tax	(2,475)		(145)		(2,620)	
Tax at the statutory tax rate	(433)	17.5	(48)	33.0	(481)	18.4
Adjustments in respect of current tax of previous periods	–	–	(53)	36.6	(53)	2.0
Income not subject to tax	(145)	5.9	(79)	54.5	(224)	8.5
Expenses not deductible for tax	84	(3.4)	–	–	84	(3.2)
Tax losses utilised from previous periods	(44)	1.7	–	–	(44)	1.7
Tax losses not recognised as deferred tax assets	538	(21.7)	127	(87.5)	665	(25.4)
Tax credit at the Group's effective rate	–	–	(53)	36.6	(53)	2.0

13. PROFIT/(LOSS) FOR THE PERIOD/YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the period from 1 July 2007 to 31 December 2008 includes a loss of HK$47,168,000 (year ended 30 June 2007: HK$1,176,000), which has been dealt with in the financial statements of the Company (note 30(b)).

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the period from 1 July 2007 to 31 December 2008 is based on the profit for the period attributable to shareholders of the Company of HK$30,984,000 (year ended 30 June 2007: loss of HK$2,567,000), and the weighted average of 811,259,728 (year ended 30 June 2007: 83,285,449) ordinary shares in issue during the period.

The calculation of diluted earnings per share amount for the period from 1 July 2007 to 31 December 2008 is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the interest on the dilutive convertible bonds; and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of all dilutive convertible bonds into ordinary shares. Except for the Tranche 1 Bond (as defined in the Company's circular dated 3 May 2007 (note 32)) issued by the Company on 27 July 2007, all other convertible bonds outstanding during the period had either an anti-dilutive effect or no diluting effect on the basic earnings per share for the period ended 31 December 2008.

A diluted loss per share amount for the year ended 30 June 2007 is not presented as no diluting event existed during that year.

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY *(Continued)*

The calculation of the basic and diluted earnings per share amounts for the period from 1 July 2007 to 31 December 2008 is based on the following data:

	Period from 1 July 2007 to 31 December 2008 *HK$'000*
Earnings	
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	30,984
Interest on dilutive convertible bonds	6,210
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	37,194

	Period from 1 July 2007 to 31 December 2008
Number of ordinary shares	
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	811,259,728
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	188,818,182
Weighted average number of ordinary shares used in the diluted earnings per share calculation	1,000,077,910

15. EQUIPMENT

Group

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Period from 1 July 2007 to 31 December 2008				
At 30 June 2007 and 1 July 2007:				
Cost	200	–	134	334
Accumulated depreciation	(162)	–	(101)	(263)
Net carrying amount	38	–	33	71
Net carrying amount:				
At 1 July 2007	38	–	33	71
Acquisition of subsidiaries *(note 40)*	3,605	6,017	417	10,039
Additions	1,584	3,007	–	4,591
Depreciation provided during the period	(367)	(749)	(114)	(1,230)
Disposals	(17)	–	–	(17)
Exchange realignment	(13)	(25)	(2)	(40)
At 31 December 2008	4,830	8,250	334	13,414
At 31 December 2008:				
Cost	7,624	13,786	979	22,389
Accumulated depreciation	(2,794)	(5,536)	(645)	(8,975)
Net carrying amount	4,830	8,250	334	13,414

15. EQUIPMENT *(Continued)*

Group *(Continued)*

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Year ended 30 June 2007				
At 1 July 2006:				
Cost	199	–	134	333
Accumulated depreciation	(162)	–	(74)	(236)
Net carrying amount	37	–	60	97
Net carrying amount:				
At 1 July 2006	37	–	60	97
Additions	27	–	–	27
Depreciation provided during the year	(13)	–	(27)	(40)
Disposals	(13)	–	–	(13)
At 30 June 2007	38	–	33	71

Company

	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 July 2006, 30 June 2007 and 1 July 2007:			
Cost and net carrying amount	–	–	–
Net carrying amount:			
At 1 July 2006, 30 June 2007 and 1 July 2007	–	–	–
Additions	26	490	516
Depreciation provided during the period	(1)	(49)	(50)
At 31 December 2008	25	441	466
At 31 December 2008:			
Cost	26	490	516
Accumulated depreciation	(1)	(49)	(50)
Net carrying amount	25	441	466

16. GOODWILL

Group

	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At beginning of period/year	**–**	–
Acquisition of subsidiaries *(note 40)*	**1,466,760**	–
Exchange realignment	**155**	–
At end of period/year	**1,466,915**	–

Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions has been allocated to the business operation of sewage and water treatment and related technical services of the Group for impairment testing.

The recoverable amount of the operation of sewage and water treatment has been determined by reference to a business valuation performed by CB Richard Eills Limited, independent professionally qualified valuers, on a value-in-use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of ten years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first ten-year period is 12%, which is determined by reference to the average rates for the similar industry and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period.

Based on the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2008.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in value-in-use calculations

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- *Budgeted turnover*
  - in respect of the revenue from sewage treatment and water distribution operations, based on the projected sewage treatment and water sales volume.
  - in respect of the revenue from sewage technical services, based on the expected growth rate of the market.
- *Budgeted gross margins*
  - in respect of the sewage treatment and water distribution operations, the basis used to determine the latest sewage treatment and water selling price up to the date of valuation report.
  - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the period immediately before the budgeted year, increased for expected efficiency improvements.
- *Business environment*
  - There have been no major changes in the existing political, legal and economic conditions in Mainland China.
  - Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of sewage and water treatment plants. Given its historical performance record and its long-established relationship with the grantor, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and water treatment plants shall be renewed at expiry, and therefore the sewage treatment and water distribution operations can generate income perpetually.

17. OPERATING CONCESSIONS

	Group	
	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Net carrying amount:		
At beginning of period/year	**–**	–
Acquisition of subsidiaries *(note 40)*	**436,105**	–
Amortisation provided during the period/year	**(5,799)**	–
Exchange realignment	**(717)**	–
At end of period/year	**429,589**	–

	31 December 2008	30 June 2007	1 July 2006
	HK$'000	*HK$'000*	*HK$'000*
Cost	**483,337**	–	–
Accumulated amortisation	**(53,748)**	–	–
Net carrying amount	**429,589**	–	–

The operating concessions of the Group are the service concession rights to operate sewage and water treatment plants in Mainland China in respect of a number of service concession arrangements with certain governmental authorities in Mainland China, as further detailed in note 5 to the financial statements.

At 31 December 2008, certain sewage treatment concession rights of the Group in a then aggregate net carrying amount of HK$98,529,000 (30 June 2007: Nil) are pledged to secure certain bank loans granted to the Group (notes 5 and 31(a)(i)).

The accounting policies in respect of the classification of the service concession arrangements between financial assets (loans and receivables) and intangible assets (operating concessions) are set out under the heading of “Service concession arrangements” in note 3.4 to the financial statements.

18. OTHER INTANGIBLE ASSETS

Group

	Patents	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2006, 30 June 2007 and 1 July 2007:			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net carrying amount	–	–	–
Net carrying amount:			
At 1 July 2006, 30 June 2007 and 1 July 2007	–	–	–
Acquisition of subsidiaries *(note 40)*	133	1,086	1,219
Additions	–	522	522
Amortisation provided during the period	(26)	(52)	(78)
Exchange realignment	(1)	(6)	(7)
At 31 December 2008	106	1,550	1,656
At 31 December 2008:			
Cost	555	1,628	2,183
Accumulated amortisation	(449)	(78)	(527)
Net carrying amount	106	1,550	1,656

19. INTERESTS IN SUBSIDIARIES

		Company	
		31 December 2008	30 June 2007
	Note	***HK$'000***	*HK$'000*
Unlisted shares or investments, at cost		**1,943,342**	202
Due from subsidiaries	*(a)*	**942,352**	30,697
Due to subsidiaries	*(a)*	**–**	(1,700)
		2,885,694	29,199

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(b) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Z.K.C Environmental Group Co., Ltd. ("ZKC Environmental") δ	PRC/ Mainland China	RMB286,969,071	–	88.43	Consultancy service and investment holding
深圳華強創新投資有限公司 ("Shenzhen Hua Qiang") δ	PRC/ Mainland China	RMB300,000,000	–	53.06	Investment holding
深圳華強豐泰投資有限公司 δ	PRC/ Mainland China	RMB70,000,000	–	42.45 †	Sewage treatment
綿陽中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB40,000,000	–	88.43	Sewage treatment

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
長沙中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB50,000,000	–	79.59	Sewage treatment
廣州中業污水處理有限公司 δ	PRC/ Mainland China	RMB40,000,000	–	88.43	Sewage treatment
江油中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB8,000,000	–	88.43	Sewage treatment
成都雙流中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB10,000,000	–	70.74	Sewage treatment
青島膠南中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB30,000,000	–	88.43	Sewage treatment
青島中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB20,000,000	–	88.43	Sewage treatment
廣州中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB30,000,000	–	88.43	Sewage treatment
青島上馬中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB15,000,000	–	88.43	Sewage treatment
成都華陽中科成污水淨化有限公司 δ	PRC/ Mainland China	RMB9,000,000	–	88.43	Sewage treatment

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
台州市路橋中科成污水淨化有限公司 [δ]	PRC/ Mainland China	RMB55,500,000	–	88.43	Sewage treatment
成都龍泉中科成污水淨化有限公司 [δ]	PRC/ Mainland China	RMB27,600,000	–	88.43	Sewage treatment
菏澤中科成污水淨化有限公司 [δ]	PRC/ Mainland China	RMB30,000,000	–	88.43	Sewage treatment
濟南十方水質淨化有限公司 [δ]	PRC/ Mainland China	RMB20,000,000	–	88.43	Sewage treatment
彭州中科成污水淨化有限公司 [δ]	PRC/ Mainland China	RMB28,000,000	–	88.43	Sewage treatment
佛山三水中科成水質淨化有限公司 [δ]	PRC/ Mainland China	RMB76,000,000	–	88.43	Sewage treatment
北控水務(廣西)有限公司 [δ Ω]	PRC/ Mainland China	HKD30,000,000	–	100	Investment holding
永州市北控污水淨化有限公司 [δ Ω]	PRC/ Mainland China	HKD45,000,000	100	100	Sewage treatment
濱州華強西海水務有限公司 [δ]	PRC/ Mainland China	RMB50,000,000	–	44.46 [†]	Water treatment and distribution
沾化華強水務環保有限公司 [δ]	PRC/ Mainland China	RMB10,000,000	–	49.19 [†]	Sewage treatment

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Wanon Industries Limited	Hong Kong	HK$500,000	100	100	Trading of computer and related products
Wanon Trading Limited	Hong Kong	HK$2	–	100	Trading of computer and related products
Beijing Enterprises Water (Hong Kong) Limited δ	Hong Kong	HK$1	100	100	Investment holding

† These entities are accounted for as subsidiaries by virture of the Company's control over them.

Ω These entities are registered as wholly-foreign-owned enterprises under the PRC Law.

δ Acquired/incorporated during the period.

On 1 August 2008, the Group acquired the entire equity interest in Gainstar Limited, which indirectly holds a 88.43% equity interest in ZKC Environmental. Gainstar Limited and its subsidiaries (collectively referred to as the "ZKC Group") are engaged in the operations of sewage treatment and the provision of related services in Mainland China.

In addition, on 28 September 2008, the Group acquired a 60% equity interest in Shenzhen Hua Qiang. Shenzhen Hua Qiang and its subsidiaries (collectively referred to as the "Hua Qiang Group") are engaged in the operations of sewage treatment and water distribution in Mainland China.

Further details of the above acquisition transactions are included in note 40 to the financial statements.

The principal subsidiaries disposed of by the Group during the period included Shanghai Classic Limited and its subsidiary. Further details of the disposal transaction are included in note 41 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTEREST IN AN ASSOCIATE

Particulars of the Group's associate, which was acquired by the Group during the period and is an unlisted entity indirectly held by the Company, are as follows:

			Percentage of			
Company name	Place of incorporation/ registration and operations	Registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
中信產業投資基金管理有限公司	PRC/Mainland China	RMB100,000,000	23.00	14.29	23.00	Fund management

The following tables illustrate the summarised financial information of the Group's associate:

	31 December 2008 ***HK$'000***	30 June 2007 *HK$'000*
Share of the associate's assets and liabilities		
Non-current assets	**7**	–
Current assets	**25,312**	–
Current liabilities	**(6)**	–
Net assets	**25,313**	–

	Period from 1 July 2007 to 31 December 2008 ***HK$'000***	Year ended 30 June 2007 *HK$'000*
Share of the associate's results		
Revenue	**259**	–
Total expenses	**(1,070)**	–
Loss before tax	**(811)**	–
Tax	**–**	–
Loss for the period/year	**(811)**	–

21. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment of the Group as at 31 December 2008 is a 4.08% equity interest in 四川省水處理及資源化工程技術研究中心, which is an unlisted equity investment in Mainland China.

The investment was not stated at fair value but at cost less any accumulated impairment losses because it does not have a quoted market price in an active market and hence, in the opinion of the directors, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

22. INVENTORIES

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Raw materials	**3,179**	–
Low value consumables	**954**	–
	4,133	–

23. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses to date	**200,462**	–

24. TRADE RECEIVABLES

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Trade receivables	**1,392,116**	2,104
Impairment *(note (b))*	**(9,431)**	–
	1,382,685	2,104
Portion classified as current assets	**(144,376)**	(2,104)
Non-current portion	**1,238,309**	–

Notes:

(a) The Group's trade receivables mainly arise from the sewage treatment service and consultancy service. The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, and can be extended up to three months for major customers. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of impairment, is as follows:

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**64,540**	2,104
4 to 6 months	**42,121**	–
7 to 12 months	**35,661**	–
1 to 2 years	**2,054**	–
	144,376	2,104
Unbilled	**1,238,309**	–
	1,382,685	2,104

24. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(b) The movements in the provision for impairment of the Group's trade receivables are as follows:

	Group	
	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
At beginning of period/year	**–**	–
Acquisition of subsidiaries	**7,749**	–
Impairment during the period/year recognised in the income statement *(note 8)*	**1,773**	–
Amount written back during the period/year *(note 8)*	**(94)**	–
Exchange realignment	**3**	–
At end of period/year	**9,431**	–

The above provision for impairment of trade receivables as at 31 December 2008 was made against the whole balances of the trade receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the billed trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**31,478**	2,031
Less than 1 month past due	**35,869**	73
1 to 3 months past due	**31,455**	–
4 to 6 months past due	**18,522**	–
7 months to 1 year past due	**25,043**	–
Over 1 year past due	**2,009**	–
	144,376	2,104

24. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Receivables classified as non-current were neither past due nor impaired. The above trade receivables were mainly due from governmental authorities in Mainland China as grantors in respect of the Group's sewage treatment business.

Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	31 December 2008	30 June 2007	**31 December 2008**	30 June 2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**516**	–	**–**	–
Deposits and other debtors	**249,923**	147	**200**	–
Advances to suppliers	**47,170**	–	**–**	–
Due from related parties *(note 26)*	**124,888**	–	**–**	–
	422,497	147	**200**	–
Impairment *(note (b))*	**(1,074)**	–	**–**	–
	421,423	147	**200**	–
Portion classified as current assets	**(302,099)**	(147)	**(200)**	–
Non-current portion	**119,324**	–	**–**	–

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) The Group's deposits and other debtors as at 31 December 2008 included, inter alia, the following:

(i) an investment deposit of RMB50,001,600 (equivalent to HK$56,792,000) paid to a government authority in Mainland China in connection with the acquisition of a 66.67% equity interest in 貴港市供水有限責任公司 ("Guigang Water"). Further details of the acquisition are set out in note 49(ii) to the financial statements and the Company's circular dated 31 December 2008 in respect of this acquisition. The balance is classified as a non-current asset;

(ii) a deposit of RMB18,000,000 (equivalent to HK$20,444,000) paid for the purchase of a land use right in Yongzhou, Hunan Province, the PRC. The balance is classified as a non-current asset;

(iii) a deposit of RMB10,150,000 (equivalent to HK$11,528,000) paid for the purchase of an office building in Chengdu, Sichuan Province, the PRC. The balance is classified as a non-current asset;

(iv) a deposit of RMB8,000,000 (equivalent to HK$9,086,000) paid to guarantee the performance of all obligations under a lease arrangement for the purchase of certain equipment. The balance is classified as a non-current asset and further details of the lease arrangement are set out in note 33 to the financial statements;

(v) cash advances of RMB41,107,000 (equivalent to HK$46,689,000) in aggregate made to a contract customer of the Group in connection with a contract of service dated 8 May 2008 entered into between the two parties, pursuant to which the Group is providing (i) construction management services to the customer regarding the construction of a sewage treatment plant in Mainland China by the customer; and (ii) funding at the maximum amount of RMB60,000,000 (equivalent to HK$68,148,000) to the customer to finance the construction of the sewage treatment plant. Any advances made will be due for repayment on 25 April 2009 and hence, the cash advances made to the customer as at 31 December 2008 are classified as current assets.

A service fee of RMB12,000,000 will be charged by the Group under this contract, of which RMB5,522,000 (equivalent to HK$6,273,000) has been recognised in the income statement during the period by reference to the stage of completion of the contract as at 31 December 2008;

(vi) a deposit of RMB39,005,000 (equivalent to HK$44,302,000) paid to a government authority in Mainland China for the procurement of a concession right to operate a sewage treatment plant on a BOT basis. The balance is classified as a current asset;

(vii) various tender deposits of RMB30,650,000 (equivalent to HK$34,812,000) in aggregate paid by the Group for the bidding of potential sewage treatment projects. These deposits are classified as current assets.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Movements in the provision for impairment of the Group's other receivables during the period/year are as follows:

	Group	
	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
At beginning of period/year	**–**	–
Acquisition of subsidiaries	**786**	–
Impairment during the period/year recognised in the income statement (*note 8*)	**313**	–
Amount written back during the period/year (*note 8*)	**(108)**	–
Exchange realignment	**83**	–
At end of period/year	**1,074**	–

The above provision for impairment of other receivables as at 31 December 2008 was made against the whole balances of the other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

26. DUE FROM/TO RELATED PARTIES/A SHAREHOLDER

(a) The amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayment.

(b) Particulars of the amounts due from related parties, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	31 December 2008 HK$'000	Maximum amount outstanding during the period HK$'000	1 July 2007 HK$'000
成都太然投資有限公司 *	**14,195**	14,195	–
Other related parties	**110,693**		–
	124,888		–

* *Mr. Hu Xiaoyong, a director of the Company, has a beneficial interest in this company.*

(c) Included in the amounts due from related parties of the Group as at 31 December 2008 is an amount of RMB86,908,000 (equivalent to HK$98,710,000) due from 鴻橋投資有限公司 ("Hong Qiao"), a company established in Mainland China holding a 40% equity interest in Shenzhen Hua Qiang. Pursuant to the Assignment of Equity Interest Agreement (as defined in the Company's circular dated 6 October 2008) entered into between the Group and Hong Qiao in connection with the acquisition of Shenzhen Hua Qiang, the Group was required to settle the purchase consideration of RMB156,908,000 payable by Hong Qiao to the vendor on behalf of Hong Qiao, which will repay the amount to the Group in future periods.

As at 31 December 2008, RMB70,000,000 has been settled by Hong Qiao and the remaining balance of RMB86,908,000 will be settled by the deduction in the same amount of the capital contributed by Hong Qiao in Shenzhen Hua Qiang in accordance with a memorandum of understanding entered into between the Group and Hong Qiao on 27 March 2009. As at the date of approval of these financial statements, the arrangement has not yet been completed. Notwithstanding the above, in the opinion of the directors, no impairment loss on the amount is foreseen.

26. DUE FROM/TO RELATED PARTIES/A SHAREHOLDER *(Continued)*

(d) The amount due to a shareholder of the Group and the Company as at 31 December 2008 is the outstanding consideration payable in connection with the Group's acquisition of 100% equity interest in Monico Investments Limited ("Monico"), as further detailed in note 40(a) to the financial statements.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's financial assets at fair value through profit or loss as at 30 June 2007 were listed equity investments in Hong Kong, which were stated at market value.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2008	30 June 2007	**31 December 2008**	30 June 2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**671,240**	29,287	**15,376**	2,307
Cash equivalents	**1,392**	–	**–**	–
Time deposits	**170,370**	75	**–**	–
	843,002	29,362	**15,376**	2,307
Less: Restricted cash and pledged deposits *(note (a))*	**(8,066)**	(75)	**–**	–
Cash and cash equivalents	**834,936**	29,287	**15,376**	2,307

Notes:

(a) As at 31 December 2008, bank balances of RMB7,000,000 (equivalent to HK$7,951,000) (30 June 2007: Nil) and RMB101,000 (equivalent to HK$115,000) (30 June 2007: Nil) were pledged to (i) certain government authorities in Mainland China as a condition to place tenders for sewage treatment projects; and (ii) banks to secure certain banking facilities granted to the Group, respectively.

(b) At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK$827,043,000 (30 June 2007: HK$10,518,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(c) The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of defaults.

29. SHARE CAPITAL

	Notes	31 December 2008 HK$'000	30 June 2007 HK$'000
Authorised:			
15,000,000,000 (30 June 2007: 1,500,000,000) ordinary shares of HK$0.10 each	*(a)*	**1,500,000**	150,000
Issued and fully paid:			
2,405,073,357 (30 June 2007: 83,285,449) ordinary shares of HK$0.10 each	*(b)*	**240,507**	8,328

Notes:

(a) Pursuant to an ordinary resolution of shareholders of the Company passed on 4 March 2008, the authorised share capital of the Company was increased from HK$150,000,000 to HK$1,500,000,000 by the creation of an additional 13,500,000,000 ordinary shares of HK$0.10 each, ranking pari passu in all respects with the then existing share capital of the Company.

(b) A summary of the movements in the Company's issued share capital during the period ended 31 December 2008 and the year ended 30 June 2007 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 July 2006, 30 June 2007 and 1 July 2007		83,285,449	8,328	–	8,328
Share placement	*(i)*	247,000,000	24,700	74,100	98,800
Allotment of shares for the acquisition of Gainstar Limited	*(ii)*	559,787,908	55,979	694,137	750,116
Shares issued upon conversion of convertible bonds	*(iii)*	1,515,000,000	151,500	460,211	611,711
Share issue expenses		–	–	(2,968)	(2,968)
At 31 December 2008		2,405,073,357	240,507	1,225,480	1,465,987

29. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(b) *(Continued)*

(i) Pursuant to a subscription agreement (the "Shang Hua Subscription Agreement") dated 21 January 2008 entered into between BEHL, BE Environmental and the Company, 247,000,000 new ordinary shares of the Company were allotted and issued to BE Environmental at a subscription price of HK$0.40 per ordinary share for a total cash consideration, before any issuance expenses, of HK$98,800,000, for the purpose of providing additional working capital to the Group.

(ii) Pursuant to an acquisition agreement (the "ZKC Acquisition Agreement") entered into between, among others, the Company, Besto Holdings Limited ("Besto"), Tenson Investment Limited ("Tenson") and Newton Finance Holdings Limited ("Newton") (collectively the "ZKC Environmental Vendors") on 3 June 2008, 559,787,908 new ordinary shares of the Company were issued as part of the consideration for the acquisition of a 100% equity interest in Gainstar Limited. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Stock Exchange at the date of acquisition of 1 August 2008, amounted to HK$750,116,000. Further details of the transaction are set out in note 40(a) to the financial statements.

Immediately following the acquisition of Gainstar Limited by the Group, Besto, Tenson and Newton became major shareholders of the Company. Tenson is beneficially owned as to 52.62% and 44.94% by Messrs. Hu Xiaoyong and Zhou Min, directors of the Company, respectively. Newton is beneficially owned as to 50% by Mr. Wang Taoguang, another director of the Company.

(iii) During the period ended 31 December 2008, convertible bonds of the Company with an aggregate principal amount of HK$606,000,000 were converted by certain bondholders into 1,515,000,000 new ordinary shares of the Company in total at a conversion price of HK$0.40 per ordinary share. The difference of HK$460,211,000 between nominal value of the ordinary shares issued and the then aggregate carrying amounts of the liability and equity components of the relevant convertible bonds at the dates of conversions was transferred to the Company's share premium account.

30. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current period and the prior year are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

(ii) The Group's contributed surplus account represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the group reorganisation undertaken in prior years, over the nominal value of the Company's ordinary shares issued in exchange therefor.

(iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries. None of the Group's PRC reserve funds as at 31 December 2008 were distributable in the form of cash dividends.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2006		–	60,859	–	(36,513)	24,346
Loss for the year and total income and expense for the year	*13*	–	–	–	(1,176)	(1,176)
At 30 June 2007 and 1 July 2007		–	60,859	–	(37,689)	23,170
Share issue expenses and total income and expense recognised directly in equity		(2,968)	–	–	–	(2,968)
Loss for the period	*13*	–	–	–	(47,168)	(47,168)
Total income and expense for the period		(2,968)	–	–	(47,168)	(50,136)
Share placement	*29(b)(i)*	74,100	–	–	–	74,100
Allotment of shares for the acquisition of Gainstar Limited	*29(b)(ii)*	694,137	–	–	–	694,137
Issue of convertible bonds	*32*	–	–	364,524	–	364,524
Conversion of convertible bonds	*29(b)(iii), 32*	460,211	–	(120,780)	–	339,431
At 31 December 2008		1,225,480	60,859	243,744	(84,857)	1,445,226

30. RESERVES *(Continued)*

(b) Company *(Continued)*

The Company's contributed surplus account represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation undertaken in prior years, over the nominal value of the Company's shares in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distribution to its members out of contributed surplus subject to the Company's articles of association and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

31. BANK AND OTHER BORROWINGS

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Bank loans, secured	**1,155,949**	–
Other loans, unsecured	**43,160**	–
Total bank and other borrowings	**1,199,109**	–
Analysed into:		
Bank loans repayable:		
Within one year	**201,224**	–
In the second year	**137,159**	–
In the third to fifth years, inclusive	**420,309**	–
Beyond five years	**397,257**	–
	1,155,949	–
Other loans repayable:		
Within one year	**11,017**	–
In the second year	**4,203**	–
In the third to fifth years, inclusive	**12,607**	–
Beyond five years	**15,333**	–
	43,160	–
Total bank and other borrowings	**1,199,109**	–
Portion classified as current liabilities	**(212,241)**	–
Non-current portion	**986,868**	–

31. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The Group's bank loans are secured by:

(i) mortgages over sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors. These land use rights and operating facilities are normally registered under the names of the relevant entities in the Group and are required to be returned to the grantors at the end of the respective service concession periods (notes 5 and 17);

(ii) guarantees given by the Company and/or its subsidiaries; and/or

(iii) a pledge over the Group's equity interest in Shenzhen Hua Qiang.

(b) HK$3,067,000 (30 June 2007: Nil) of the Group's unsecured other loans as at 31 December 2008 were guaranteed by 濱州市水利局.

(c) All the Group's bank and other loans as at 31 December 2008 are denominated in RMB. Except for an interest-free government loan of HK$6,815,000 and a bank loan of HK$68,148,000 which bears fixed interest rate at 7.47% per annum, all the Group's bank and other loans bear interest at floating interest rates.

32. CONVERTIBLE BONDS

The Company issued six batches of convertible bonds during the period from 1 July 2007 to 31 December 2008, the summary information of which are set out as follows:

Group and Company

	Tranche 1 Bond* *(note (a))*	Tranche 2 Bond* *(note (a))*	Firm Bonds* *(note (b))*	First Option Bond* *(note (b))*	Second Option Bond* *(note (b))*	ZKC Convertible Bonds* *(note (c))*
Issuance date	27/7/2007	31/3/2008	4/3/2008	17/7/2008	17/7/2008	24/7/2008
Maturity date	26/7/2010	30/3/2011	3/3/2011	16/7/2011	16/7/2011	23/7/2013
Original principal amount (HK$'000)	100,000	100,000	200,000	300,000	200,000	589,304
Coupon rate	Zero	Zero	Zero	Zero	Zero	Zero
Conversion price per ordinary share (HK$)	0.40	0.40	0.40	0.40	0.40	0.69

* *As defined in the respective circulars of the Company in connection with the issuance of the convertible bonds (see notes below).*

32. CONVERTIBLE BONDS *(Continued)*

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purposes as further described in the accounting policy for "Convertible bonds" set out in note 3.4 to the financial statements. The following tables summarise the movements in the principal amounts, liability and equity components of the Company's convertible bonds during the period:

Group and Company

	Tranche 1 Bond HK$'000 *(note (a))*	Tranche 2 Bond HK$'000 *(note (a))*	Firm Bonds HK$'000 *(note (b))*	First Option Bond HK$'000 *(note (b))*	Second Option Bond HK$'000 *(note (b))*	ZKC Convertible Bonds HK$'000 *(note (c))*	Total HK$'000
Principal amount outstanding							
At 1 July 2006, 30 June 2007 and 1 July 2007	–	–	–	–	–	–	–
Issue of convertible bonds	100,000	100,000	200,000	300,000	200,000	589,304	1,489,304
Conversion to ordinary shares	(66,000)	(20,000)	(20,000)	(300,000)	(200,000)	–	(606,000)
At 31 December 2008	34,000	80,000	180,000	–	–	589,304	883,304
Liability component							
At 1 July 2006, 30 June 2007 and 1 July 2007	–	–	–	–	–	–	–
Issue of convertible bonds	82,724	78,707	160,228	239,315	159,543	404,263	1,124,780
Imputed interest expense *(note 9)*	6,210	4,357	9,782	375	740	13,962	35,426
Transfer to share capital and share premium accounts upon conversion to ordinary shares *(note 29(b)(iii))*	(58,155)	(16,157)	(16,646)	(239,690)	(160,283)	–	(490,931)
At 31 December 2008	30,779	66,907	153,364	–	–	418,225	669,275
Equity component (included in convertible bond equity reserve)							
At 1 July 2006, 30 June 2007 and 1 July 2007	–	–	–	–	–	–	–
Issue of convertible bonds	17,276	21,293	39,772	60,685	40,457	185,041	364,524
Transfer to share capital and share premium accounts upon conversion to ordinary shares *(notes 29(b)(iii) and 30(b))*	(11,402)	(4,259)	(3,977)	(60,685)	(40,457)	–	(120,780)
At 31 December 2008	5,874	17,034	35,795	–	–	185,041	243,744

32. CONVERTIBLE BONDS *(Continued)*

Notes:

(a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a shareholder of the Company, pursuant to a convertible bond subscription agreement dated 12 April 2007 for the purpose of financing future investments in water treatment businesses in the PRC (as amended) and providing additional working capital (as amended) to the Group. Further details of these convertible bonds are set out in the Company's circular dated 3 May 2007 and announcements dated 27 July 2007, 31 March 2008 and 12 June 2008.

(b) The Firm Bonds, the First Option Bond and the Second Option Bond were issued to BE Environmental, the immediate holding company, pursuant to the Shang Hua Subscription Agreement entered into between BEHL, BE Environmental and the Company for the purpose of financing investment and development of water treatment and environmental business and providing additional working capital to the Group. Further details of these convertible bonds are set out in the Company's circular dated 18 February 2008.

(c) The ZKC Convertible Bonds were issued to the ZKC Environmental Vendors as part of the consideration for the acquisition of the 100% equity interest in Gainstar Limited, which holds indirectly a 88.43% equity interest in ZKC Environmental, pursuant to the ZKC Acquisition Agreement as further detailed in note 40(a) to the financial statement. Further details of the ZKC Convertible Bonds are set out in the Company's circular dated 30 June 2008 (the "ZKC Acquisition Circular").

33. FINANCE LEASE PAYABLE

The purchase of certain equipment, which forms part of a sewage treatment plant constructed by the Group, was financed by a finance lease arrangement with an original lease term of 5 years. Pursuant to the lease agreement, a deposit of RMB8,000,000 (equivalent to HK$9,086,000) is required to be placed at the lessor as a guarantee in respect of the arrangement, which will be refunded from the lessor upon the completion of all obligations by the Group under the lease arrangement (note 25(a)(iv)).

33. FINANCE LEASE PAYABLE *(Continued)*

At 31 December 2008, the total future minimum lease payments under the finance lease and their present values were as follows:

Group	**Minimum lease payments 31 December 2008** *HK$'000*	Minimum lease payments 30 June 2007 *HK$'000*	**Present value of minimum lease payments 31 December 2008** *HK$'000*	Present value of minimum lease payments 30 June 2007 *HK$'000*
Amounts payable:				
Within one year	**6,953**	–	**5,311**	–
In the second year	**6,633**	–	**5,816**	–
In the third year	**4,975**	–	**4,743**	–
Total minimum finance lease payments	**18,561**	–	**15,870**	–
Future finance charges	**(2,691)**	–		
Total net finance lease payable	**15,870**	–		
Portion classified as current liabilities	**(5,311)**	–		
Non-current portion	**10,559**	–		

34. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession agreements entered into by the Group, the Group has contractual obligations to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the sewage and water treatment plants, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

34. PROVISION FOR MAJOR OVERHAULS *(Continued)*

The movements in the provision for the major overhauls of sewage and water treatment plants for the period ended 31 December 2008 and the year ended 30 June 2007, are as follows:

	Group	
	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
At beginning of period/year	**–**	–
Acquisition of subsidiaries *(note 40)*	**61,447**	–
Additional provision	**7,285**	–
Increase in discounted amounts arising from the passage of time *(note 9)*	**595**	–
Exchange realignment	**(321)**	–
At end of period/year	**69,006**	–

35. DEFERRED INCOME

Deferred income of the Group represented subsidies received from third parties and government authorities in respect of the Group's sewage treatment businesses. The subsidies are interest-free and not required to be repaid, and are recognised upon the completion of the relevant projects.

36. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated balance sheet are as follows:

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Deferred tax assets	**27,112**	–
Deferred tax liabilities	**(59,707)**	–
	(32,595)	–

The components of deferred tax assets and liabilities and the movements during the period are as follows:

Group

	Notes	Fair value adjustments arising from acquisition of subsidiaries	Impairment and provision	Provision of major overhauls	Temporary difference related to service concession arrangements	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2006, 30 June 2007 and 1 July 2007		–	–	–	–	–
Acquisition of subsidiaries	*40*	49,909	2,066	14,613	(91,291)	(24,703)
Deferred tax credited/(charged) to the income statement during the period	*12*	–	432	1,970	(10,653)	(8,251)
Exchange realignment		30	–	(78)	407	359
At 31 December 2008		49,939	2,498	16,505	(101,537)	(32,595)

36. DEFERRED TAX *(Continued)*

Notes:

(a) The Group had unutilised tax losses of approximately HK$41,437,000 (30 June 2007: HK$78,964,000) as at 31 December 2008, that can be carried forward for five years from that date for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets are recognised for tax losses carried forward only to the extent that the realisation of related benefits through future taxable profits is probable. The Group did not recognise deferred tax assets of HK$7,424,000 (30 June 2007: HK$13,828,000) as at 31 December 2008, in respect of such unutilised tax losses due to the unpredictability of future profit streams in the subsidiaries to which the tax losses relate.

(b) Pursuant to the New PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised is approximately HK$139,671,000 at 31 December 2008 (30 June 2007: Nil).

(c) In the opinion of the directors, there are no income tax consequences regarding the Company's convertible bonds issued during the period and hence, no deferred liabilities have been provided in respect to these convertible bonds.

37. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Within 3 months	**45,965**	313
4 to 6 months	**12,911**	–
7 months to 1 year	**2,561**	–
1 to 2 years	**12,508**	–
2 to 3 years	**4,390**	–
Over 3 years	**6,860**	–
	85,195	313

The trade payables are non-interest-bearing and unsecured and are normally settled on 60-day terms.

38. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		31 December	30 June	**31 December**	30 June
		2008	2007	**2008**	2007
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accruals		**22,706**	207	**4,277**	8
Other liabilities		**134,008**	159	**–**	–
Other taxes payables	*39*	**1,358**	–	**–**	–
Due to a shareholder	*26(d)*	**542,451**	–	**542,451**	–
Due to related parties	*26*	**1,010**	–	**–**	–
		701,533	366	**546,728**	8
Portion classified as current liabilities		**(632,205)**	(366)	**(546,728)**	(8)
Non-current portion		**69,328**	–	**–**	–

The Group's other liabilities as at 31 December 2008 included, inter alia, the following:

(i) outstanding considerations in the amounts of RMB33,680,000 (equivalent to HK$38,255,000) and RMB41,159,000 (equivalent to HK$46,748,000), payable to the Mianyang Government for the transfer and construction of sewage treatment facilities to the Group under a TOT arrangement and a BOT arrangement, respectively. The outstanding considerations will be repayable in four annual instalments of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012.

(ii) outstanding consideration in the amount of RMB4,000,000 (equivalent to HK$4,543,000) payable to Taizhou Government for the transfer of a sewage treatment facility to the Group under a TOT arrangement. The balance is fully repayable in 2009.

Other payables are non-interest-bearing and have an average term of three months.

39. OTHER TAXES PAYABLES

	Group	
	31 December	30 June
	2008	2007
	HK$'000	*HK$'000*
Business tax	**211**	–
Value-added tax	**239**	–
Others	**908**	–
	1,358	–

40. BUSINESS COMBINATIONS

Except for the operating concessions of the ZKC Group and the Hua Qiang Group with respective carrying amounts of HK$212,479,000 and HK$414,293,000 immediately before the acquisitions, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the period as at their respective dates of acquisition have no significant differences from their respective carrying amounts, and are set out as follows:

	Notes	**ZKC Group** HK$'000 (note (a))	**Hua Qiang Group** HK$'000 (note (b))	**Total** HK$'000
Net assets acquired:				
Equipment	15	7,886	2,153	10,039
Operating concessions	17	101,702	334,403	436,105
Other intangible assets	18	1,219	–	1,219
Interest in an associate		26,268	–	26,268
Available-for-sale investment		457	–	457
Prepayments, deposits and other receivables		76,532	15,021	91,553
Deferred tax assets	36	8,245	20,485	28,730
Inventories		1,999	897	2,896
Amounts due from contract customers		110,177	–	110,177
Trade receivables		1,302,451	63,129	1,365,580
Cash and bank balances		79,928	221,764	301,692
Trade payables		(67,442)	(37,955)	(105,397)
Other payables and accruals		(194,196)	(29,319)	(223,515)
Income tax payable		(10,304)	(5,442)	(15,746)
Bank and other borrowings		(695,002)	(275,461)	(970,463)
Finance lease payable		(16,675)	–	(16,675)
Provision for major overhauls	34	(58,627)	(2,820)	(61,447)
Deferred income		(1,184)	–	(1,184)
Deferred tax liabilities	36	(41,806)	(11,627)	(53,433)
Minority interests		(90,425)	(137,902)	(228,327)
		541,203	157,326	698,529
Goodwill on acquisition	16	1,357,139	109,621	1,466,760
		1,898,342	266,947	2,165,289
Satisfied by:				
Cash		–	266,947	266,947
New ordinary shares of the Company	(a)	1,053,871	–	1,053,871
New convertible bonds	(a)	828,000	–	828,000
Costs associated with the acquisitions		16,471	–	16,471
		1,898,342	266,947	2,165,289
Profit for the period since acquisition		72,507	4,286	76,793

40. BUSINESS COMBINATIONS *(Continued)*

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	ZKC Group	Hua Qiang Group	Total
	HK$'000	*HK$'000*	*HK$'000*
	(note (a))	*(note (b))*	
Cash consideration	–	(266,947)	(266,947)
Cash and bank balances acquired	79,928	221,764	301,692
Cash paid for costs associated with the acquisitions	(16,471)	–	(16,471)
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	63,457	(45,183)	18,274

Had the acquisition of the ZKC Group and the Hua Qiang Group taken place on 1 July 2007, the Group's profit for the period before minority interests for the period ended 31 December 2008 would have been HK$220,149,000, and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$972,335,000.

Notes:

(a) Pursuant to the ZKC Acquisition Agreement entered into between, among others, the Company and the ZKC Environmental Vendors on 3 June 2008 and as approved by the Company's shareholders at a special general meeting held on 15 July 2008, the Group acquired from the ZKC Environmental Vendors the entire issued share capital of Gainstar Limited, an investment holding company holding indirectly an aggregate of 88.43% equity interest in ZKC Environmental after the completion of its acquisition of Monico (see below). The acquisition was completed on 1 August 2008.

In accordance with the ZKC Acquisition Agreement, total consideration for the acquisition, subject to adjustments in certain circumstances, amounted to HK$1,370,665,000, of which HK$975,557,782 (the "Gainstar Consideration") was payable to the ZKC Environmental Vendors for the transfer of the entire issued share capital of Gainstar Limited and the remaining balance of HK$395,107,218 (the "Monico Consideration") payable to Tenson or its nominees for the transfer of the entire issued share capital of Monico to Gainstar Limited.

The Gainstar Consideration, which has been fully settled as at 31 December 2008, was satisfied by the allotment and issuance of 559,787,908 new ordinary shares of the Company and the issue of the ZKC Convertible Bonds with an aggregate principal amount of HK$589,304,125 by the Company to the ZKC Environmental Vendors. The fair value of the Gainstar Consideration amounted to approximately HK$1,339,420,000, being the aggregate amount of the fair value of the 559,787,908 consideration shares of HK$750,116,000 (determined based on the closing price of the Company's ordinary shares on the Stock Exchange on the date of acquisition of 1 August 2008) and the nominal value of the ZKC Convertible Bonds issued. Further details of the ZKC Convertible Bonds are set out in note 32 to the financial statements.

40. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The Monico Consideration, which remained unsettled as at the date of approval of these financial statements and is included in the amount due to a shareholder of the Group and the Company (note 26(d) and 38) as at 31 December 2008, is to be satisfied by the allotment and issuance of 226,683,106 new ordinary shares of the Company and the issue of convertible bonds with an aggregate principal amount of HK$238,695,875 (the "Monico Convertible Bonds") by the Company to Tenson or its nominees. The fair value of the Monico Consideration amounted to approximately HK$542,451,000, being the aggregate amount of the fair value of the 226,683,106 consideration shares of HK$303,755,000 (determined based on the closing price of the Company's ordinary shares on the Stock Exchange on the date of acquisition of 1 August 2008) and the nominal value of the Monico Convertible Bonds to be issued.

Further details of this transaction are set out in the ZKC Acquisition Circular.

The purchase price allocation in respect of the acquisition of the ZKC Group set out above is still preliminary, as the Gainstar Consideration is subject to adjustments contingent on future events, which include, inter alia, (i) the attainment of a profit for the year attributable to equity holders of RMB100 million by ZKC Environmental and its subsidiaries for the year ended 31 December 2008, as determined on the basis set out in the ZKC Acquisition Circular; and (ii) the ultimate settlement of billed trade receivables outstanding as at 1 August 2008 (date of completion of the acquisition of Gainstar Limited).

(b) Pursuant to a share transfer agreement dated 8 September 2008 (the "Hua Qiang Acquisition Agreement") entered into between ZKC Environmental, Hong Qiao and two third parties independent to the Group, the Group acquired a 60% equity interest in Shenzhen Hua Qiang from the two third parties for a total cash consideration of RMB235,362,074 (equivalent to HK$266,947,000), which was fully settled during the period. The acquisition was completed on 28 September 2008.

Shenzhen Hua Qiang is an investment holding company holding a 80%, 83% and 55% equity interest in Hua Qiang Feng Tai, Hua Qiang Xihai and Hua Qiang Zhanhua, respectively. Shenzhen Hua Qiang and its three subsidiaries (collectively the "Hua Qiang Group") are engaged in the operations of sewage and water treatment, and water distribution in Mainland China.

41. DISPOSAL OF SUBSIDIARIES

Pursuant to a sale and purchase agreement dated 27 May 2008, the Group disposed of its entire equity interest in Shanghai Classic Limited, a then wholly-owned subsidiary of the Company, to an independent third party for a cash consideration of HK$11,412,420. Shanghai Classic Limited and its subsidiary, 上海建開國際貿易有限公司, did not actively engage in any business at the date of disposal. Details of the disposal transaction are summarised as below:

	Period from 1 July 2007 to 31 December 2008 ***HK$'000***	Year ended 30 June 2007 *HK$'000*
Net assets disposed of:		
Cash and bank balances	**1,664**	–
Prepayments, deposits and other receivables	**10,875**	–
	12,539	–
Exchange fluctuation reserve realised	**(1,887)**	–
Gain on disposal of subsidiaries *(note 7)*	**760**	–
	11,412	–
Satisfied by cash	**11,412**	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Period from 1 July 2007 to 31 December 2008 ***HK$'000***	Year ended 30 June 2007 *HK$'000*
Cash consideration	**11,412**	–
Cash and bank balance disposal of	**(1,664)**	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**9,748**	–

42. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) The Gainstar Consideration for the acquisition of Gainstar Limited during the period was settled by way of the issue of new ordinary shares of the Company and convertible bonds by the Company, details of which are set out in note 40(a) to the financial statements.

(b) During the period, convertible bonds with an aggregate principal amount of HK$606,000,000 were converted into 1,515,000,000 ordinary shares of the Company (note 29(b)(iii)).

43. CONTINGENT LIABILITIES

At 31 December 2008, the Group did not have any significant contingent liabilities (30 June 2007: Nil).

At 31 December 2008, a corporate guarantee of RMB324,000,000 (equivalent to HK$367,999,000) was given by the Company to a bank in connection with a bank loan of an equivalent amount granted to a subsidiary of the Company (30 June 2007: Nil).

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain portion of the buildings (which the Group has the right to use under service concession agreements) under operating lease arrangements, with the leases negotiated for terms ranging from 3 to 4 years. The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	31 December 2008 ***HK$'000***	30 June 2007 *HK$'000*
Within one year	**282**	–
In the second to fifth years, inclusive	**517**	–
	799	–

At 31 December 2008, the Company did not have any operating lease arrangements as lessor (30 June 2007: Nil).

44. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases a piece of land, motor vehicle, certain office properties and staff quarters under operating lease arrangements with the leases negotiated for terms ranging from 1 to 45 years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Within one year	**1,734**	237
In the second to fifth years, inclusive	**3,024**	165
After five years	**8,580**	–
	13,338	402

At 31 December 2008, the Company did not have any operating lease commitments as lessee (30 June 2007: Nil).

45. COMMITMENTS

In addition to the operating lease commitment detailed in note 44(b) above, the Group had the following commitments at the balance sheet date:

	Group	
	31 December 2008	30 June 2007
	HK$'000	*HK$'000*
Purchase of plant and equipment, and a land use right under service concession arrangements:		
Authorised, but not contracted for	**77,839**	–
Contracted, but not provided for	**110,368**	–
	188,207	–

At 31 December 2008, the Company had a capital commitment of HK$154,988,000 (30 June 2007: Nil) in respect of its capital contributions to a subsidiary, which is contracted but not provided for.

46. RELATED PARTY DISCLOSURES

(a) Other than the transactions and balances detailed in notes 25, 26, 29, 32 and 38 to the financial statements, the Group had no other transactions and outstanding balances with related parties during the period ended 31 December 2008 and the year ended 30 June 2007.

(b) Compensation of key management personnel of the Group

	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Short term employee benefits	**2,858**	1,191
Pension scheme contributions	**27**	–
Total compensation paid to key management personnel	**2,885**	1,191

Further details of directors' emoluments are included in note 10 to the financial statements.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, convertible bonds, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to related parties/a shareholder, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks loans, convertible bonds, cash and bank balances are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the balance sheet date that are exposed to interest rate risk:

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
31 December 2008								
Floating rate:								
Cash and cash equivalents	663,174	–	–	–	–	–	663,174	0.35
Bank and other borrowings	137,279	141,362	153,838	150,766	128,311	412,591	1,124,147	7.01
Fixed rate:								
Cash and cash equivalents	171,762	–	–	–	–	–	171,762	2.67
Bank and other borrowings	68,148	–	–	–	–	–	68,148	7.47
Convertible bonds	–	30,779	220,271	–	418,225	–	669,275	7.78
30 June 2007								
Floating rate:								
Cash and cash equivalents	29,287	–	–	–	–	–	29,287	1.84
Fixed rate:								
Restricted cash and pledged deposits	75	–	–	–	–	–	75	3.06

At 31 December 2008, it is estimated that a general decrease/increase of 100 basis points in interest rate of average balances of bank and other loans, cash and bank balances during the period/year, with all other variables held constant, would increase/decrease the Group's profit before tax for the period ended 31 December 2008 by approximately HK$2,158,000 (year ended 30 June 2007: increase/decrease the Group's loss before tax by approximately HK$307,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the respective balance sheet dates and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's balance sheet can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
31 December 2008		
If Hong Kong dollar weakens against RMB by 5%	4,400	42,173
If Hong Kong dollar strengthens against RMB by 5%	(4,400)	(42,173)
30 June 2007		
If Hong Kong dollar weakens against RMB by 5%	(8)	614
If Hong Kong dollar strengthens against RMB by 5%	8	(614)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than unit's functional currency.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group does not have any significant credit risk as credit given to any individual or corporate entity is not significant. The main credit risk exposure to the Group arises from default or delinquency in principal payment of trade receivables and amounts due from contract customers. In respect of trade receivables and amounts due from contract customers, the Group trades mainly with municipal government in different provinces which do not have significant credit risk. In addition, trade receivable balances and amounts due from contract customers are monitored on an ongoing basis, in the opinion of directors, the credit risk is not significant.

With respect to credit risk arising from the other major financial assets of the Group, which comprise deposits and other receivables, amounts due from related parties and cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other interest-bearing loans and convertible bonds. In the opinion of the directors of the Company, most of the borrowings that mature within one year can be renewed, and hence the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at each balance sheet dates based on the contracted undiscounted payments, was as follows:

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 3 years	More than 3 year but less than 4 years	More than 4 year but less than 5 years	More than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2008								
Bank loans	**–**	**275,076**	**198,595**	**200,945**	**187,440**	**155,536**	**446,939**	**1,464,531**
Other loans	**6,815**	**6,614**	**6,345**	**6,076**	**5,807**	**5,537**	**15,933**	**53,127**
Trade payables	**–**	**85,195**	**–**	**–**	**–**	**–**	**–**	**85,195**
Other liabilities	**15,863**	**48,817**	**18,400**	**17,037**	**33,891**	**–**	**–**	**134,008**
Finance lease payable	**–**	**5,311**	**5,816**	**4,743**	**–**	**–**	**–**	**15,870**
Due to a shareholder	**–**	**542,451**	**–**	**–**	**–**	**–**	**–**	**542,451**
Due to related parties	**1,010**	**–**	**–**	**–**	**–**	**–**	**–**	**1,010**
Convertible bonds	**–**	**–**	**30,779**	**220,271**	**–**	**418,225**	**–**	**669,275**
	23,688	**963,464**	**259,935**	**449,072**	**227,138**	**579,298**	**462,872**	**2,965,467**
30 June 2007								
Trade payables	313	–	–	–	–	–	–	313
Other liabilities	159	–	–	–	–	–	–	159
	472	–	–	–	–	–	–	472

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair values

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values. The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

	Carrying amount		Fair value	
	31 December 2008	30 June 2007	**31 December 2008**	30 June 2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current trade receivables	**1,238,309**	–	**1,238,309**	–
Non-current other receivables	**13,173**	–	**13,173**	–
Financial liabilities:				
Non-current bank and other floating rate borrowings	**986,868**	–	**986,868**	–
Convertible bonds	**669,275**	–	**713,028**	–
Finance lease payable	**10,559**	–	**10,559**	–

Note: The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 21 to the financial statements, the available-for-sale investment of the Group is not stated at fair value but at cost less any accumulated impairment losses because fair value of which cannot be reasonably assessed and therefore no disclosure of the fair value of this financial instrument is made.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt.

The Group monitors capital using the gearing ratio. This ratio is calculated based on net debt and total equity. Net debt is calculated as total interest-bearing bank and other borrowings and convertible bonds (as shown in the balance sheet) less cash and cash equivalents. The gearing ratios at 31 December 2008 and 30 June 2007 were as follows:

	31 December 2008 *HK$'000*	30 June 2007 *HK$'000*
Net debt	**1,033,448**	–
Total equity	**1,997,957**	31,436
Gearing ratio	**52%**	0%

48. FINANCIAL INSTRUMENTS BY CATEGORY

Other than an unlisted equity investment being classified as an available-for-sale investment and financial assets at fair value through profit or loss as disclosed in notes 21 and 27 to the financial statements, respectively, all financial assets and liabilities of the Group and the Company as at 31 December 2008 and 30 June 2007 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

49. EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed in note 26(c) to the financial statements, the following significant events occurred after the balance sheet date:

(i) On 8 January 2009, certain of the Firm Bonds and the ZKC Convertible Bonds in principal amounts of HK$60,000,000 and HK$34,244,700 were converted into 150,000,000 and 49,630,000 new ordinary shares of the Company at conversion prices of HK$0.40 and HK$0.69, respectively, resulting in additional issued share capital and share premium of the Company of HK$19,963,000 and HK$78,274,000, respectively.

(ii) At a special general meeting held on 19 January 2009, the Company's shareholders approved a share transfer agreement dated 17 November 2008 entered into between the Group and a third party independent to the Group in relation to the acquisition of a 66.67% equity interest in Guigang Water, a limited liability company established in the PRC, at a cash consideration of RMB50,001,600.

In addition, in accordance with the share transfer agreement, after the registration of the transfer of 66.67% equity interests in Guigang Water to the Group, the Group shall made an additional capital contribution of RMB50,000,000 to Guigang Water to increase its equity interest in Guigang Water to 80%. As at the date of the approval of these financial statements, the legal process of the abovementioned transaction has not yet been completed. However, the directors of the Company is of the view that there is presently no legal barrier for the completion of the transaction.

Guigang Water and its subsidiaries are principally engaged in the operations of water treatment and distribution, and the provision of related water distribution services in Guigang Municipality, Guangxi Province, the PRC.

Further details of the acquisition are set out in the Company's circular dated 31 December 2008.

Since the share transfer agreement was effected shortly before the date of approval of these financial statements, the Group is not yet in a position to disclose any financial impact of this transaction to the Group.

50. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current period's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2009.

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years/period, as extracted from the audited financial statements and the annual report of the Company for the year ended 30 June 2007, is set out below:

	Year ended 30 June				Period from 1 July 2007 to 31 December
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
					(note)
Revenue	69,202	66,036	35,786	19,899	**337,681**
Operating profit/(loss)	(4,944)	(3,515)	(3,202)	(2,620)	**55,947**
Share of loss of an associate	–	–	–	–	**(811)**
Amortisation of goodwill	(6,200)	(12,400)	–	–	**–**
Profit/(loss) before tax	(11,144)	(15,915)	(3,202)	(2,620)	**55,136**
Tax	–	(48)	14	53	**(12,234)**
Profit/(loss) for the year/period	(11,144)	(15,963)	(3,188)	(2,567)	**42,902**
ATTRIBUTABLE TO:					
Shareholders of the Company	(11,144)	(15,963)	(3,188)	(2,567)	**30,984**
Minority interests	–	–	–	–	**11,918**
	(11,144)	(15,963)	(3,188)	(2,567)	**42,902**

ASSETS, LIABILITIES AND TOTAL EQUITY

	30 June				**31 December**
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
					(note)
Total assets	53,147	36,750	34,096	32,115	**4,816,158**
Total liabilities	(3,743)	(3,309)	(744)	(679)	**(2,818,201)**
NET ASSETS	49,404	33,441	33,352	31,436	**1,997,957**
REPRESENTED BY:					
Equity attributable to shareholders of the Company	49,404	33,441	33,352	31,436	**1,758,301**
Minority interests	–	–	–	–	**239,656**
TOTAL EQUITY	49,404	33,441	33,352	31,436	**1,997,957**

Note: Pursuant to an ordinary resolution passed at the Company's special general meeting held on 4 March 2008, the Company changed its financial year end date from 30 June to 31 December with effect from 4 March 2008 to align the financial year end date with that of Beijing Enterprises Holdings Limited, an intermediate holding company whose shares are listed on The Stock Exchange of Hong Kong Limited.