China Water Industry Group Limited
中國水業集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1129

Annual Report 2008

*for identification purpose only

Contents

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yu Gui *(Chairman)*
Mr. Liu Peng Cheng *(Deputy Chairman)*
Mr. Zhong Wen Sheng *(Managing Director)*
Mr. Sze Chun Ning, Vincent *(Deputy Managing Director)*
(Resigned on 21 November 2008)
Mr. Liu Bai Yue *(Chief Operating Officer)*
Mr. Shi De Mao
Ms. Chu Yin Yin, Georgiana
Mr. Yang Bin (Appointed on 23 December 2008)
Mr. Wang Chia Chin (Resigned on 10 June 2008)

Non-Executive Directors

Mr. Huang Yuan Wen
Mr. Pan Shi Ying

Independent Non-Executive Directors

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

AUDIT COMMITTEE

Mr. Chang Kin Man *(Chairman)*
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

REMUNERATION COMMITTEE

Mr. Chang Kin Man *(Chairman)*
Mr. Wu Tak Lung
Mr. Zhong Wen Sheng

INVESTMENT COMMITTEE

Mr. Li Yu Gui *(Chairman)*
Mr. Zhong Wen Sheng
Mr. Liu Bai Yue
Mr. Yang Bin
Mr. Chang Kin Man

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

Agricultural Bank of China
Bank of China
Industrial and Commercial Bank of China Limited

Hong Kong

Bank of China (Hong Kong) Limited
Chiyu Banking Corporation Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

LEGAL ADVISERS TO HONG KONG LAWS

Robertsons Solicitors & Notaries
Richards Butler
William W. L. Fan & Company

AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

AUDITORS

SHINEWING (HK) CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Cricket Square Hutchins Drive
P. O. Box 2681
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
Room 1901-1902,
Fook Lee Commercial Centre,
Town Place,
33 Lockhart Road
Wanchai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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West Tower, Shun Tak Centre
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STOCK CODE

1129

On behalf of the board of directors (the "Board"), I am pleased to present to the shareholders the annual results of China Water Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

RESULTS

The year 2008 was a year of challenges with the financial tsunami resulted from the US credit crisis spread all over the world. Many financial institutions, multi-national enterprises and even governments could not withstand the impact of such fierce surging wave. Fortunately, water is a crucial element of life and living. The business of water supply and sewage treatment are less influenced by bearish capital market and contracting economy. To cope with the ever-changing business environment, the management has put forwards various measures to strengthen the Group's costing control. We believed that these cost control measures could help the Group to face with various challenges brought by uncertain economic environment in the future. During the year, the Company has successfully acquired 4 water supply plants in the PRC. They have contributed positively to the revenue and earnings of the Group. In the year, the Group achieved a remarkable profit of HK$58.81 million (2007: Loss HK$11.43 million). For continuing operation, the Group recorded a revenue of HK$194.93 million, representing a huge increase of 56.74% from HK$124.36 million recorded in the previous year. The Group recorded a gross profit of HK$76.80 million, representing a substantial growth of 191.97% from HK$26.30 million recorded last year.

BUSINESS REVIEW

Water supply and sewage treatment business in China

For Water Supply Business and Related Installation and Construction Works

In the year 2008, the Group's revenue and profit from water supply business have grown steadily and continuously. The revenue from the segment amounted to approximately HK$144.49 million, representing 173.37% increase as compared with last year. The major contributors are Yichun Water of HK$73.17 million and Yingtan Water of HK$31.87 million respectively, representing 53.88% of the total revenue. Gross profit from water supply business and construction works was approximately HK$59.11 million.

For Sewage Treatment Business

During the year, turnover from sewage treatment business amounted to approximately HK$25.29 million (2007: HK$6.83 million). Gross profit from sewage treatment business was approximately HK$13.3 million. The Group's sewage treatment plants are located at Yichun City in Jiangxi Province, Jinxiang County and Linyi City in Shandong Province. All these plants are operated under concession agreements granted by the relevant city or municipal government for a term of not less than 25 years under build-operate-transfer basis.

At present, the Group has already acquired 7 water supply plants and 3 sewage treatment facilities in the PRC. The aggregate water supply capacity of these water supply plants reaches 2,300,000 tonnes per day, while the 3 sewage treatment facilities are capable of disposing 130,000 tonnes sewage water per day. The Group's footprints in water supply and sewage treatment can be found in Jiangxi Province, Anhui Province, Shandong Province, Henan Province and Hainan Province.

For construction of water supply and sewage treatment infrastructure

In 2008, revenue and profit were benefiting from construction works and infrastructure projects amounted to approximately HK$23.74 million (2007: HK$50.08 million) and HK$1.6 million (2007: HK$5.19 million) respectively.

On top of its solid foundation in water business industry, subsequent to the year ended, the Group has further expansion its network to eastern and northern of the PRC, to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, with the aggregate sewage treatment capacity of 260,000 tonnes per day and the aggregate water supply capacity of 274,000 tonnes per day respectively. This acquisition is a very important milestone for the Company as this raised the Group's water supply and sewage treatment capacity to 2,574,000 tonnes per day and 390,000 tonnes per day respectively. If the above capacity is added to projects with Letters of Intend, the total water supply capacity and sewage treatment capacity of the Group will reach daily 5,624,000 tonnes and 1,225,000 tonnes respectively. The Group is getting more closer to its goal of attaining water supply capacity of 10,000,000 tonnes per day and sewage treatment capacity of 2,000,000 tonnes per day within 3 years.

Investment in financial and investment products and development in ceramic sewage material business

iMerchants Limited ("iMerchants") (Stock Code: 8009), a company listed on the GEM board which the Group has acquired 84.98% equity interest during the year, has contributed HK$0.57 million and HK$11.28 million to the Group's consolidated turnover and results. Operating profit of iMerchants was mainly derived from the disposal and redemption of the treasury investments. On the verge of financial tsunami, pricing and liquidity of financial and securities product was highly volatile and uncertain. The management of iMerchants has diversified iMerchants' business into the selling and manufacturing of ceramic sewage material, in 2008 amounted HK$0.83 million and HK$0.29 million of turnover and profit contributed by the newly acquired ceramic sewage material business in order to reduce the risk of relying solely on the investment in financial and securities products. Most of the financial investments in iMerchants would be held for long-term purpose. iMerchants' management believes that the fair value of these investments would recover gradually in the long run despite the recent bearish stock market. The sewage material sales and manufacturing business was also believed to have a bright future since demand for cleaner environment and water still has been growing steadily and continuously.

Trading of watches and accessories business

Following the closure of image shop last year, the management has decided not to invest further resources to the trading of watches and accessories business. Full provision has been made on this business segment.

PROSPECTS

After the successful transformation into a water investment corporation last year, the Group continued to allocate resources on expanding the investment and operation of the PRC water business during the year under review. While striving to enlarge its market share in the PRC water market, the Group also strengthened the operation and management on the investee corporations and achieved successful results.

Currently, the global financial crisis brought unprecedented challenges for the international economy, yet China's economy was less vulnerable towards the crisis. In particular, the water industry, which is a public utilities industry, maintained its stability and was less affected by the fluctuation of the economic cycle. The directors of the Group believed that the operating risk of water industry is the least during economic downturn and recession. Particularly, the lack of water resources and progress of urbanisation will ensure a huge demand and continuous growth of the water industry. The importance of water supply and sewage treatment for people's livelihood will also ensure a long term and effective support from the government. Since the Group only focuses on water business, the Group is confident that the continuous and steady development of the major business can be maintained.

For water supply business, by leveraging on the extensive experience in water business of the management team, the Group will continue to strengthen the operation and management of the investee corporations, expand income sources, reduce cost and increase efficiency to greatly enlarge the profitability of existing water projects. It will also reinforce crisis awareness and further regulate and implement strictly the regulatory framework of the enterprises to ensure the safety and hygiene of water supply in terms of quality and quantity.

For sewage treatment business, the Group will grasp the good opportunities brought about the support measures implemented by the PRC government to create a green society that conserves energy and reduces emissions, while continually expand the sewage treatment and reclaimed water reuse businesses actively and steadily to acquire substantial economic benefits.

Meanwhile, the Group has signed letters of intent regarding numerous water investment projects with certain large and medium cities and will continue to explore and actively seek for water projects with attractive returns and growth potential. Mergers and acquisitions or investment will be achieved by financings through various channels or joining hands with strategic partners. The Group will actively seek to cooperate with water investment corporations in the mainland to establish strategic partnerships and rapidly enlarge the scale and profitability of the water investment business of the Group.

Looking into the future, the Group is confident on the water industry in China. The Group will take the economic crisis as an opportunity and accelerate the pace and put greater efforts in investing PRC water projects to further optimise the investment portfolio and business structure of the Group. The Group will surely become a large and influential water enterprise in China in the foreseeable future and generate attractive returns to its shareholders and general investors.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to my fellow directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continued supports.

Li Yu Gui
Chairman

Hong Kong, 27 April 2009

FINANCIAL PERFORMANCE

Financial results

With the management's dedicated efforts to streamline the Group's businesses and to focus on the development of water supply and sewage treatment operations, the Group's annual results achieved a remarkable turnaround from a loss of approximately HK$11.43 million in 2007 to a profit of approximately HK$58.81 million in 2008. This represented a satisfactory growth by HK$70.24 million as compared with last year. The improvement was attributable to many factors. Amongst them, the contribution from water supply and sewage treatment segment made an eloquent appeal for the Group's strategic business development over the past two years. During the year, the water supply and sewage treatment business remains the major source of our profit. The business segment contributed a profit of HK$25.54 million, which represented an increase of 205.41% comparing to the profit of HK$8.36 million last year. Besides, iMerchants Limited ("iMerchants") (Stock Code: 8009), which the Group has acquired 84.98% equity interests during the year, has contributed HK$11.28 million to the Group's consolidated results. In the 2008 operating results of the Group, there were a discount on acquisition of a subsidiary of HK$12.44 million and a gain from the change in fair value of convertible bonds of HK$64.54 million. During the year, no share-based payment expenses was recognised as no share option was granted. Also there was no loss from discontinued operation as the loss-making business of production and sales of computer peripherals had been disposed of in last year. The operating results well demonstrated the achievement and insight of the Group's strategy to diversify its business in the water supply and sewage treatment industry sector in the PRC.

Revenue and Gross Profit

The Group's revenue and gross profit for the year 2008 was HK$194.93 million and HK$76.80 million respectively, which represented a robust growth of 56.74% in turnover and 191.97% in gross profit as compared with the last year. The revenue and gross profit were mainly contributed by water companies named Yichun Water Industry Co. Limited ("Yichun Water") and Yingtan Water Company Limited ("Yingtan Water"), which collectively accounted for 58.88% of the total turnover and 84% of gross profit. Following the disposal of computer peripherals business and cessation of watch retail and wholesales businesses in last year, no turnover and gross profit have been recognised in these two business segments in this year financial statements.

Other Operating Income

Other operating incomes have decreased by HK$8.38 million to HK$9.46 million due to bank interest income reduced and no guaranteed profit compensated by the respective vendors for the respective acquired water plants. They were mainly bank interest income of HK$2.41 million, gain on disposal of convertible bond receivables of HK$1.33 million and HK$1.91 million subsidy granted by PRC government for repairing and maintenance of the underground water pipelines due to snow disaster.

Discount on acquisition of Danzhou Qingyuan Water Industry Company Limited* ("Danzhou Qingyuan") (儋州清源水務有限公司) has been recognised in accordance with the Hong Kong Financial Reporting Standard 3. The acquisition cost of Danzhou Qingyuan was lower than the net fair value of the identifiable assets acquired. The discount of HK$12.44 million was recognised in the income statement.

The operating income of iMerchants consisted of a net gain on disposal of debt securities of HK$1.14 million, net fair value change on listed trading securities amounted to HK$5.53 million, as well as an increase in fair values of financial assets of HK$2.62 million.

Other expenses

Selling and distribution costs increased by 128.10% to HK$7.96 million (2007: HK$3.49 million). This was due to the fact that several water plants and commenced operation.

Administrative expenses has increased substantially from HK$45.11 million in 2007 to HK$69.13 million in 2008 due to several water plants being acquired during the year and commenced operation.

Impairment loss recognized in respect of trade and other receivables

The impairment loss of HK$8.31 million was mainly provided for the long outstanding guaranteed profits of HK$5.79 million which were warranty and undertaking provided by the respective vendors of the respective acquired water plants and sewage treatment plants.

Impairment loss recognised in respect of goodwill

During the year ended, the Group recognized impairment losses of approximately HK$7.84 million resulting of disposal the Longwide Investment Limited and its subsidiaries ("Longwide Group"). The impairment loss was arising from the attributable net assets value of HK$21.91 million and the carrying value of goodwill of HK$35.93 million from acquisition of Longwide Group which exceeded the sales proceed of HK$50 million.

Finance cost increased sharply by 293.57% to HK$10.28 million as compared with last year. The increase was mainly attributable to the interest expenses on convertible bonds which amounted to HK$0.96 million and loan interests of HK$9.32 million.

Share of profit/(losses) from associates

For the year under review, the Group's acquired 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") (濟南泓泉制水有限公司) through the acquisition of Blue Mountain Hong Kong Group Limited. Share of post acquisition results of Jinan Hongquan of HK$0.8 million has been taken up in this annual financial statements.

The Group has also shared a post-acquisition loss of HK$4.06 million from another associated company, namely Shangqiu Zhengyuan Water Industry Company Limited* ("Shangqiu Zhengyuan") (商丘市正源水務有限公司). During the year, the Group has acquired the remaining equity interest of Shangqiu Zhengyuan. It is now a subsidiary of the Group. It's financial results were fully consolidated into the Group's financial statement since 22 April 2008.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the management has been endeavour to keep the Group in a healthy financial position. As at 31 December 2008, the Group maintained a cash and cash equivalents amounted to HK$148.64 million (compare with HK$108.84 million on 31 December 2007). The Group has steady cash flows generating from the water supply and sewage treatment business segment. The Group has been well positioned to expand further in the PRC water industry and to take on other potential investment opportunity.

Total borrowings of the Group as at 31 December 2008 were HK$656.84 million (compare with HK$431.84 million on 31 December 2007). They comprised of the Convertible Bonds ("CB") of HK$262.34 million (2007: HK$326.87 million), long-term borrowings of HK$157.83 million (2007: HK$44.69 million), and interest free government loans of HK$55.76 million (2007: HK$50.79 million). The CB was denominated in HK dollars while others were mainly denominated in Renminbi and the interest rates of which were fixed.

The Group's gearing ratio as at 31 December 2008 was 56.43% (compare with 42.85% on 31 December 2007), which was calculated by dividing total liabilities of HK$874 million over total assets of the Group of HK$1,584.95 million.

At the year end, the Group had a net current liabilities of HK$122.54 million (2007: net current assets of HK$132.88 million). Amongst the Group's consolidated total current liabilities, the Longwide Group including the Longwide Investment Limited ("Longwide") (遠耀投資有限公司) and its subsidiaries accounted for HK$167.58 million, which represented 42.56% of the Group's total current liabilities. Subsequent to the year end, the Company has disposed of the Longwide Group to an independent third party at a consideration of HK$50 million. For details, please also refer to the Company's announcement dated 26 March 2009. After the de-consolidation of the Longwide Group upon disposal, the Group would be able to turnaround the net current liabilities and reinstate to a strong net current assets position. The board believed that the Group's liquidity risk was not significant.

CAPITAL RAISING

The Company had not conducted any fund raising activities during the year. On 21 August 2008, the Company and Pacific Foundation Securities Limited ("Placing Agent") entered into a placing agreement to place a maximum of 378,180,000 shares at a price of HK$0.182 per share on a best effort basis (the "Placement"). Due to the global downturn in the securities market, the Placement had not been successfully completed and was terminated on 30 September 2008.

During the year, the Group had incurred capital expenditures amounted to HK$183.57 million (2007: HK$677.70 million). They were mainly spent on strategic acquisitions during the year. HK$114.71 million had been used for acquisitions of water supply and related business projects in the PRC. HK$68.86 million had been spent to settle the acceptance received from the unconditional mandatory general offer of iMerchants shares pursuant to the relevant regulations after the Group has acquired the controlling stake of iMerchants from its former major shareholder.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Acquisition of subsidiaries

On 3 July 2007, the China Water Industry (HK) Limited ("China Water (HK)"), an indirect wholly-owned subsidiary of the Company entered into an agreement with Huge Summit Management Limited, pursuant to which China Water (HK) and Huge Summit have agreed to sell and purchase the entire issued share capital of Longwide Investment Limited ("Longwide") at a consideration of RMB67.5 million. Longwide is an investment holding company holding 51% equity interests in each of Shangqiu Zhengyuan Water Industry Company Limited* ("Shangqiu Zhengyuan") (商丘市正源水務有限公司) and Linyi Ganghua Water Industry Co., Ltd ("Linyi Ganghua") (臨沂港華水務有限公司). The acquisition of Linyi Ganghua and Shangqiu Zhengyuan was completed on 3 July 2007 and 22 April 2008 respectively.

On 6 November 2007, Super Sino Investment Limited ("Super Sino"), an indirect wholly-owned subsidiary of the Company entered into assets and liabilities transfer agreement with the People's Government of Danzhou City, Hainan Province to purchase 49% equity interest in Danzhou Water Pipe and other assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) for a consideration of RMB25.3 million which will be satisfied in cash. The transaction has been completed on 31 March 2008.

On 6 November 2007, Super Sino entered into a share transfer agreement with Hainan Nanshenghe Company Limited* (海南南聖河實業有限公司) to purchase 51% equity interest in the shareholder's loan due by Danzhou Lian Shun Tong Water Pipe Company Limited* ("Danzhou Water Pipe") (儋州聯順通自來水管網有限公司) for a consideration of RMB8.68 million. The transaction has been completed on 30 November 2008.

On 26 November 2007, Smart Giant Group Limited, a direct wholly-owned subsidiary of the Company entered into an agreement with Mega Mount Group Limited, to acquire the entire share capital and a shareholder's loan of Blue Mountain Hong Kong Group Limited ("Blue Mountain") for an aggregate consideration of HK$230 million. Blue Mountain is an investment holding company and its sole asset is the 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") (濟南泓泉制水有限公司). The transaction was completed on 18 January 2008.

On 1 December 2007, the Bonus Raider Investments Limited ("Bonus Raider"), a direct wholly-owned subsidiary of the Company entered into an agreement to acquire approximately 67.32% equity interests of iMerchants Limited ("iMerchants") at an aggregate consideration of approximately HK$198 million. The transaction was completed on 14 February 2008. Owing to the acquisition triggered the Takeover Code, the Group is required to make an unconditional mandatory general cash offer for all the issued shares of iMerchants. On 13 March 2008, the Group held approximately 90.68% of iMerchants shares which was exceeding the minimum 15% of public float requirement under the GEM rules. On 14 April 2008, the Group entered into placing agreement to dispose 5.70% interest in iMerchants. As at year ended, the Group held approximately 84.98% of interest in iMerchants.

On 4 February 2008, the China Water (HK) entered into a JV Agreement with Yingtan Water Supply Company* (鷹潭市供水公司) (the "JV Partner"), a state-owned enterprise incorporated in the PRC and subordinated to Construction Bureau of Yingtan City* (鷹潭市建設局), to establish the JV Company named Yingtan Water Company Limited* (鷹潭市水業有限公司) with the JV Partner to principally engage in water supply plants to urban areas in Yingtan City in Jiangxi Province of the PRC. The aggregate water supply capacities of JV Company are 100,000 tonnes per day. The investment has been completed on 20 March 2008.

On 20 May 2008, iMerchants through its wholly-owned subsidiary of Shine Gain Holdings Limited entered into the agreement with Da Luz, Sergio Augusto Josue Junior, an independent party (the "Vendor") to acquire the entire issued share capital of Plenty One Limited at a consideration of HK$55 million which directly holds 80% equity interest in Ping Xiang City San He Lian Chuang Water Technology Limited* ("Ping Xiang San He") (萍鄉市三和聯創水務科技有限公司). San He is a company established in the PRC which principally engaged in manufacturing and trading ceramic sewage material. The acquisition has been completed on 12 August 2008.

On 20 August 2008, Swift Surplus Holdings Limited ("Swift Surplus"), a direct wholly-owned subsidiary of the Company entered into an agreement with Ms. Yuen Tak Chun, an independent party (the "Vendor") to acquire 100% issued share capital in Affluent Boom Enterprises Limited ("Affluent Boom") at a consideration of HK$700 million. Affluent Boom is an investment holdings company, and its subsidiaries are mainly involved in sewage treatment and water supply businesses in China. In light of the deteriorating world economy caused by the financial crisis, the Swift Surplus and Vendor entered into the Deed of Termination on 31 Oct 2008 to suspend the acquisition of Affluent Boom. The Directors are of view that the termination will not cause any material adverse impact on the existing business of the Group.

Letter of Intent

On 16 June 2008, China Water (HK) entered into a letter of intent with Stated-owned Assets Supervisory Committee of Geermu Municipal Government* (格爾木市政府國有資產監督委員會) (the "JV Partner"), pursuant to which China Water (HK) has agreed to form JV Company with the JV Partner to principally engage in the water supply and sewage treatment for Geermu City* (格爾木市) in Qinghai Province (青海省) of the PRC. Upon the establishment of the JV Company, it will be held as to 80% by China Water and 20% by the JV Partner. The term of operation of the JV Company shall be 30 years.

On 26 June 2008, China Water (HK) entered into a letter of intent with Shenyang Water Development Limited* (瀋陽水務發展有限公司) (the "JV Partner"), to form a JV Company with the JV Partner which is principally engage in the water supply projects in Changbai District* (長白地區), Hutai New City* (胡台新城), Qipan Hill* (棋盤山), Huanggu Northern Industrial Zone* (皇姑北部工業園), Sujiatun District* (蘇家屯區) and Shenyang Northern Development Zone* (瀋北開發區) in Shenyang City (瀋陽市), the PRC. The estimated aggregate water supply capacity of the JV Company is 120,000 tonnes per day. Upon the establishment of the JV Company, it will be held as to 50% by China Water and 50% by the JV Partner.

On 14 July 2008, China Water (HK), entered into a letter of intent with Yunfu City Deyu Environment Protection Company Limited* (雲浮市德禹環保有限公司) (the "JV Partner") to form a JV Company with the JV Partner which is principally engaged in water supply and sewage treatment for urban areas in Yunfu City* (雲浮市), Guangdong Province of the PRC. The JV Partner has owned a sewage treatment plant in urban area of Yunfu City with sewage treatment capacity of 60,000 tonnes per day and has a wholly-owned subsidiary, namely Yunfu City Water Supply Company Limited* (雲浮市自來水有限公司), which owns a water supply plant with water supply capacity of 100,000 tonnes per day. The JV Partner also through its investments in Yunan County Duyuan Environment Protection Company Limited* (郁南縣都源環保有限公司) and Yunan County Yiyuan Environment Protection Company Limited* (雲安縣怡源環保有限公司) owns sewage treatment plants in Yunfu City with sewage treatment capacity of 20,000 and 20,000 tonnes per day, respectively.

PENDING LITIGATION

(i) Technostore Limited, a subsidiary of the Company

On 30 May 2007, a Petition was filed under sections 168A and 177 of the Company Ordinance (Cap. 32) to wind-up Technostore Limited ("Technostore"), a company in which the Company held 50.01% of the issued shares. The Petition was commenced by Mao Chi Fai ("Petitioner"), the minority shareholder of Technostore holding 49.99% of the issued shares.

Following court hearings regarding the winding-up proceeding in preceding year, on 29th August 2008, the court has made an order to appoint Kenny Tam & Company, Certified Public Accountant as an liquidator of Technostore and Happy Hours Limited and Mao Chi Fai become members in the committee of inspection. The matter is still in the liquidation process and is handled by Official Receiver's Office. The directors of Technostore believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to Technostore have been provided. It is unlikely to have material adverse financial impact on the Group.

(ii) Super Sino Investment Limited, an indirectly wholly-owned subsidiary of the Company

On 6 November 2007, the People's Government of Danzhou City and Super Sino entered into assets and liabilities transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) are transferred to Super Sino. On 26 June 2008, Super Sino notified that Agricultural Bank of China, Danzhou Branch filed a claim regarding the liabilities transferred by Danzhou City Water Company* with the Intermediate People's Court of Hainan against Danzhou City Water Company*, Super Sino and the third party of the People's Government of Danzhou City for the repayment of the loan principal of RMB26 million and the interests arising from the defendants of Danzhou City Water Company* and Super Sino to the plaintiff. As advised by the Company's solicitor, the borrowing contract lawsuit is under friendly out-of-court negotiation and is expected to reach a settlement agreement to reduce loan interests and extend the repayment period. This respective loan principal and interests were booked in the Group's financial statement. The director of the Company believed that the lawsuit is unlikely to have material adverse financial impact on the Group.

Save and except for this, the Company is not aware of any other significant proceedings instituted against the Company.

MAJOR EVENTS SUBSEQUENT TO THE YEAR

Disposal of subsidiary and branch office

On 26 March 2009, China Water (HK) entered into the Agreement with Bright Blue Investments Limited (皓藍投資有限公司), an independent acquirer, to dispose the sale loan of and the entire issued share capital in Longwide Investment Limited and its subsidiaries ("Longwide Group"), at a consideration of HK$50 million. Longwide Group is engaged in provision of water supply and sewage treatment business in the PRC. This transaction was completed on 2 April 2009. The impairment loss of goodwill HK$7.84 million has been recognised in the annual results due to the sales proceed less than attributable net assets value and the carrying value of goodwill.

On 27 March 2009, Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan") (濟寧市海源水務有限公司), an indirect owned subsidiary of the Company, disposed all assets and liabilities in branch office of Liang Shan County, Jining City, the PRC to Liu Qing Chen, an independent acquirer, at a consideration of HK$10 million.

The Group no longer holds any interest in Longwide Group and branch office in Liang Shan County thereafter.

Acquisition of subsidiaries and associate

On 27 April 2009, Swift Surplus Holdings Limited ("Swift Surplus") 迅盈控股有限公司, a direct wholly-owned subsidiary of the Company entered into the agreement with independent third parties, Top Vision Management Limited (達信管理有限公司) and Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, at a consideration of HK$660 million.

FOREIGN EXCHANGE RISK

The Group's exposure to foreign exchange risk is minimal as most of the Group's subsidiaries operate in the PRC and most of transactions, assets and liabilities are denominated in Renminbi. Accordingly, the Group does not have derivative financial instruments to hedge its foreign currency risks.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$5.39 million (2007: HK$25.56 million).

EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2008, the Group has employed approximately 2,662 full-time employees (2007: 2,200 full-time employees). Most of them stationed in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

* *for identification purpose only*

DIRECTORS

Executive Directors

Mr. Li Yu Gui *(Chairman)*, aged 63, is currently the Secretary General of the Guangdong Water Supply Association* (廣東省城鎮供水協會). Mr. Li has accumulated more than 30 years of experience in the organization and management of middle-to-large scale city water treatment plants as well as the construction of water supply facilities. Prior to joining the Company, Mr. Li had been the Chief Officer of the Infrastructure Department of the Guangzhou Utilities Authority* (廣州市公用事業局基本建設處), the General Manager of Guangzhou Water Supply Company* (廣州市自來水公司), the Vice Chairman of the National Water Supply Association* (全國城鎮供水協會) and the Chairman of the board of directors of the Guangdong Water Supply Association* (廣東省城鎮供水協會). During his tenure in the Guangzhou Water Supply Company, he had successively organized several large scale water supply construction projects, in which Mr. Li had taken a leading and directive role, collectively supply 4 million tones drinkable water to Guangzhou city per day.

Mr. Liu Peng Cheng *(Deputy Chairman)*, aged 36, holds a Bachelor of Science degree in Physics from the Shenzhen University. Before joining the Company, Mr. Liu was the Chief Marketing Executive in Southern China Region of Anhui Guo Zhen Environmental Energy Savings Technology Company Limited* (安徽國禎環保節能科技有限公司), which is a sizeable enterprise in the People Republic of China (the "PRC") engaging in environmental protection industry. Mr. Liu has extensive expertise and more than 10 years experience in water and water related industries. He had been responsible for the design and constructing of various water supply and sewage treatment factories in the PRC.

Mr. Zhong Wen Sheng *(Managing Director)*, aged 41, holds a Master's degree in National Economic Management from Sichuan University. Mr. Zhong has over 15 years of experience in the corporate finance, management, and treasury control, especially in the China water and related industries. Prior to joining the Company, he was the General Manager in-charging the Corporate Finance Department and the Financial Controller of the Shenzhen Head Office of China Water Affairs Group Limited (Stock Code: 855), a company listed on the main board of the Stock Exchange of Hong Kong.

Mr. Liu Bai Yue *(Chief Operating Officer)*, aged 58, graduated from the School of Adult Education, China University of Political Science and Law. Mr. Liu is a registered practicing certified enterprise legal advisor as well as an arbitrator of the Guangzhou Arbitration Commission in the PRC. Prior to joining the Company, Mr. Liu was the head of the financial department, asset management department and legal department of GDH Limited, the Hong Kong representative office of People's Government of Guangdong Province and held various positions including the Chairman of the Board and Managing Director of its certain companies from 1986 to 2006. Mr. Liu has over 23 years of experience in handling and management of international trade, investment, corporate restructure and merger and acquisition.

Mr. Shi De Mao, aged 47, completed his studies in accountancy in the Shandong TV University, Shandong Province, the PRC. Before joining the Company, Mr. Shi has accumulated over 20 years of experience in the fields of financial management, innovation of technologies and water supply industry.

Ms. Chu Yin Yin, Georgiana, aged 38, holds a Bachelor's Degree of Business Administration in Accountancy and a Master's Degree of Corporate Governance. She is a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Ms. Chu is also an associate of the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 10 years' extensive experience by working in an international audit firm and other listed companies.

Mr. Yang Bin, aged 35, was graduated from the college of Jiu-jiang, Jiangxi Province, the PRC. He has also completed his studies in Economy Administration in Distance Learning College of The Party School of the Central Committee of the Communist Party of China. Mr. Yang joined the Company in 2007 as a deputy general manager in charge of the Operation Division of the Company. He has over 10 years' working experience in water industry. Before joining the Company, Mr. Yang was a General Manager Assistant of Jiangxi Shangrao City Water Supply Company* (江西省上饒市自來水公司) where he was mainly responsible for marketing and promoting water supply business to the urban residents of Shangrao City, the PRC as well as designing and constructing water supply piping network.

Non-executive Directors

Mr. Huang Yuan Wen, aged 73, had been the general manager of Jinan Water Supply Industry Group Company Limited. Mr. Huang had been playing a prominent role in the design and construction for a number of large-scale water supply-related projects in the Shandong Province, the PRC by acting as the chief engineer in these projects. Mr. Huang has extensive expertise and accumulated over 40 years of extensive experience in management and operation of water supply-related projects in the PRC. Mr. Huang completed his studies and obtained his Bachelor degree specializing in water supply and drainage system from The Shanghai Tongji University.

Mr. Pan Shi Ying, aged 36, is currently a director and a deputy general manager of Jinan Water Supply Industry Group Company Limited. Mr. Pan had also been the plants manager of a number water-related factories in Shandong Province, the PRC and has over 10 years of extensive working and management experience in water supply-related industry. Mr. Pan obtained his Bachelor degree in Automation Engineering from The Shandong University of Technology.

Independent Non-executive Directors

Mr. Chang Kin Man, aged 45, is a certified public accountant in Hong Kong and a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chang holds a bachelor's degree in economics and a master's degree in applied finance. Mr. Chang has extensive experience in corporate finance and in accounting field. He worked for an international accounting firm and a number of public listed companies for more than 15 years.

Mr. Wu Tak Lung, aged 43, is a fellow member of The Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Taxation Institute of Hong Kong. Mr. Wu is also a full Member of the Hong Kong Securities Institute and an associate member of The Hong Kong Institute of Certified Accountants. Mr. Wu received a bachelor's degree in Business Administration from the Hong Kong Baptist University and a Master Degree in Business Administration from University of Manchester and University of Wale. Mr. Wu is Vice-President of The Association of Chartered Certified Accountant and Vice-President of The Taxation Institute of Hong Kong. He is also a Council Member of Hong Kong – Guangdong Youth Exchange Promotion Association, Kiangsu and Chekiang Resident (HK) Association and an Honorary Associate of the School of Business of the Hong Kong Baptist University.

Mr. Gu Wen Xuan, aged 66, had been the Deputy Director General of The Department of Urban Planning of The Ministry of Construction of the PRC and taking a leading role in other related bureau. During his working for the government bureau, Mr. Gu was responsible for urban planning and in charge of the designs of various infra-structures (which includes the planning and designs of water supply-related projects) for the urban cities in the PRC. Mr. Gu had accumulated over 15 years of experience in urban planning. Mr. Gu obtained his Bachelor degree in Geography and Master degree of Science in Regional Planning from The Beijing Normal University. Mr. Gu has been qualified as a Research Fellow of the Seal of the Evaluation Committee of Professional Titles and also a State Certified Planner of The Ministry of Construction of the PRC.

SENIOR MANAGEMENT OF THE GROUP

Mr. Gu Ling Bo, aged 40, holds a bachelor degree in Radiation Chemistry from Sichuan University, the People's Republic of China (the "PRC") and a master degree in Business Administration from the New York Institute of Technology, USA. Currently, Mr. Gu is a General Manager of the Company, the Vice Executive President of Jiangxi Yichun Water Industry Co., Ltd ("Yichun Water") (江西宜春市供水有限公司) since 2004 and also being the Managing Director of Jiangxi Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke") (江西宜春市方科污水處理有限公司) since 2005. Mr. Gu has more than 10 years extensive expertise and experiences in corporate development and project management.

Mr. Wang Xiao Bo, aged 41, is a Deputy General Manager of the Company, has substantial experience in the management of the water supply and related industries in China. He is presently director and general manager of Hai Nan Hong Bo Water Affairs Company Limited* (海南弘波水務有限公司). Mr. Wang holds a Bachelor Degree in Enterprise Management from the Shandong University of Technology.

Mr. Zhang Yan Qing, aged 39, is a Deputy General Manager of the Company. Mr. Zhang holds a Master's Degree in Business Administration from Hefei University of Technology. Before joining Company in 2006, Mr. Zhang was a financial controller of Yichun Water since 2004. He has over 10 years' extensive experience in the financial accounting and management accounting.

Ms. Lam Man Yee, Maria, aged 37, is the Financial Controller of the Company and is responsible for Financial Management and Corporate Administration. Ms. Lam is an associate member of Hong Kong Institute of Certified Public Accountant and an associate member of Association of International Accountants. Before joining the Group in December 2006, she had over ten years of working experience in auditing, internal auditing, financial accounting and management accounting.

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana, aged 38, is the Company Secretary of the Company. She is a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Ms. Chu is an associate of the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 10 years' extensive experience by working in an international audit firm and other listed companies.

* *for identification purpose only*

OVERVIEW

The directors of the Company are committed to achieving and maintaining high standards of corporate governance to ensure that all decisions are made in good faith, in the best interest of shareholders and in long-term shareholders value.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provision set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force prior to 1 January 2005.

1. Corporate Governance Practice

A. Directors

A.1 Board of Directors

- The Company has held 27 Board meetings in the year of 2008. Directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors.

- Directors may attend meetings in person or through other means of telephone, electronic or other communication facilities in accordance with the Minutes of the Board and the Board Committees are recorded in sufficient details and kept by the company secretary for inspection at any reasonable time on reasonable notice by any Director.

- Directors were supplied with adequate and relevant information in a timely manner to enable them forming decision in the relevant meetings. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Agreed procedures are in place providing to the member of the Board and/or committee to seek independent professional advice at the Company's expenses to assist them to discharge their duties.

- The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The Board also monitors and controls financial performance in pursuit of the Group's strategic objectives. The names of the directors during the financial year and their individual attendance of is set out below:

Name	**Board**	**Audit Committee**	**Remuneration Committee**	**Investment Committee**
Total numbers of meetings held during the year of 2008	27	2	1	1
Executives:				
Mr. Li Yu Gui *(Chairman)*	25/27	N/A	N/A	1
Mr. Liu Peng Cheng *(Deputy Chairman)*	11/27	N/A	N/A	N/A
Mr. Zhong Wen Sheng *(Managing Director)*	23/27	N/A	1	1
Mr. Sze Chun Ning, Vincent *(Deputy Managing Director)* (Resigned on 21 November 2008)	15/27	N/A	N/A	N/A
Mr. Liu Bai Yue *(Chief Operating Officer)*	26/27	N/A	N/A	1
Mr. Shi De Mao	17/27	N/A	N/A	N/A
Ms. Chu Yin Yin, Georgiana	17/27	N/A	N/A	N/A
Mr. Yang Bin (Appointed on 23 December 2008)	1/27	N/A	N/A	1
Mr. Wang Chia Chin (Resigned on 10 June 2008)	–	N/A	N/A	N/A
Non-Executives:				
Mr. Huang Yuan Wen	12/27	N/A	N/A	N/A
Mr. Pan Shi Ying	12/27	N/A	N/A	N/A
Independent Non-Executives:				
Mr. Chang Kin Man	25/27	2	1	1
Mr. Wu Tak Lung	6/27	2	1	N/A
Mr. Gu Wen Xuan	21/27	2	N/A	N/A

A.2 Chairman and Chief Executive Officer

- The position of the Chairman and Chief Executive Office is held by Mr. Li Yu Gui ("Mr. Li") and Mr. Zhong Wen Sheng ("Mr. Zhong") respectively. Mr. Zhong was appointed as a Managing Director but his role and function are same as the Chief Executive Officer of which are mainly in charge of the Company's day-to-day management and operations and set up long-term business objectives. They play different and distinctive roles, their responsibilities are clearly defined and as set out in the Guidance notes of the separation of roles of the Chairman and Chief Executive Officer under the CG Code of the Company adopted in 2006.

- The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at board meeting.

- The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives and risk assessment for the Board's approval.

A.3 Board Composition

- The Board comprises a total of 12 members including 7 executive directors, 2 non-executive directors and 3 independent non-executive directors. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business. 3 out of 12 Directors are independent non-executive directors and two of them are qualified accountants.

- The Company has received written confirmation from each independent non-executive director of their independence to the Group. The Group considered all of Independent Non-Executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The names of the directors and their respective biographies are set out on pages 12 to 14 of this annual report.

A.4 Appointment, re-election and removal

- The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested in the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the articles of association of the Company.

- The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the articles of association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an additional to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

- At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Directors, including those appointed for a specific term shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election to fill a casual vacancy until the next general meeting or the next annual general meeting.

A.5 Responsibilities of the Board

- The Board is responsible for the leadership and control of the Company, oversee the Group's businesses and evaluate the performance of the Group. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

- The Board delegates day-to-day operations of the Group to Executive Directors and senior management, while reserving certain key matters for its approval. When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of the Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

A.6 Supply of and access to information

The Company's senior management regularly supplies the Board and its Committees with adequate information in a timely manner to enable them to make informed decisions. For Board meetings and the Board Committee meetings, the agenda accompanying with Board papers were sent to all Directors at least 3 days before the intended date of the Board meetings or Board Committee meetings.

B. *Remuneration of Directors and Senior Management*

The Company has established a remuneration committee with specific written terms of reference, details of which are set out in the section of Remuneration Committee of this report.

C. *Accountability and Audit*

C.1 Financial Reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirement. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on page 33 of this annual report. The details of the internal controls of the Company and the audit committee are set out under the section "Internal Control" and "Audit Committee".

C.2 Internal Control

- The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal control aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for the provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

- In addition, a policy and procedure regarding the Publication Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner.

- The Board has appointed SHINGWING Risk Services Limited, an independent accountancy firm to review the overall effectiveness of the Group's system of internal control over financial, operational and compliance controls and risk management functions. The Board has discussed and considered the review report and the recommendations.

- During the year under review, the Board has reviewed the internal control policy and concluded that in general, the Group's internal control system is effective and adequate, no material deficiencies have been identified.

C.3 Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Chang Kin Man (Committee Chairman), Mr. Wu Tak Lung and Mr. Gu Wen Xuan. Mr. Chang and Mr. Wu both are certified public accountant for many years. They are responsible for reviewing of the Group's financial information and oversight of the Group's financial reporting system and internal control procedure. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel, records, external auditors and senior management.

The Audit Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code provision. For the year under review, the Audit Committee held two meetings included the review of the final results for the year ended 31 December 2008 and interim accounts for 30 June 2008. The Group's annual report for the year ended 31 December 2008 has been reviewed by the Audit Committee.

D. Delegation by the Board

D.1 Management functions

When the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

D.2 Board Committees

The Company has set up three committees including an Audit Committee, a Remuneration Committee and an Investment Committee of the Board, each Committee with its specific terms of reference.

The audit committee of the Company was established since 29 June 2005, details of which are set out in the section of Audit Committee of this report.

Remuneration Committee

(a) The Company has established a remuneration committee since 29 June 2005 with written terms of reference in consistence with the Corporate Governance Code. The primary duties of the remuneration committee include the following:

i. To make recommendation to the board on the Company's policy and structure for all remuneration of directors and senior management.

ii. To determine the remuneration packages of executive directors and senior management, according to the major scope, responsibilities and duties, importance of position of the directors and the senior management as well as the remuneration level of the related position in the market, including benefit in kind, pension rights and compensation payments which include compensation payable for loss or termination of their office or appointment.

iii. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time or time.

iv. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not exercise for the Company.

v. To ensuring that no director or any of his associates shall be involved in any decisions as to their own remuneration.

vi. To advising shareholders on how to vote with respect to any service contracts of directors that requires shareholders' approval under the Listing Rules.

(b) During the year under review, the members of remuneration committee comprised Mr. Chang Kin Man (Independent Non-executive Director) who acts as Committee Chairman, Mr. Wu Tak Lung (Independent Non-executive Director) and Mr. Zhong Wen Sheng (Managing Director).

(c) The number of remuneration committee meetings held during the year and record of individual attendance of members, on a named basis, at meetings held during was set out in section headed "Board of Directors" above.

(d) The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.

(e) The emolument of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

(f) Further details on the emolument policy and the basis of determining the emolument payable to the Directors are set out in the page 68 of this annual report.

(g) The Group's stock option scheme as described on page 110 of this annual report is adopted as the Group's long-term incentive scheme.

Investment Committee

The Investment Committee of the Company was established since 18 December 2008, consisted of 5 directors, namely Mr. Li Yu Gui (Committee Chairman), Mr. Zhong Wen Sheng, Mr. Liu Bai Yue, Mr. Yang Bin and Mr. Chang Kin Man. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal. During the year, one meeting was held with the Management and the record of attendance at committee of individual member is listed in section headed "Board of Directors" above.

E. Communication with Shareholders

E.1 Effective communication

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with investors and analysis to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

The Company also maintains a website at www.chinawaterind.com where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

E.2 Voting by poll

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results were published on the website of the Stock Exchange as well as the Company's website at www.chinawaterind.com.

2. Directors' Securities Transaction

The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by directors (the "Model Code"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all directors, the Board confirms that the director of the Company have complied with the Model Code regarding directors' securities transactions during the year and up to the date of publication of the Annual Report.

3. Auditors' remuneration

For the financial year, SHINEWING (HK) CPA Limited, the auditors of the Company, the fee paid or payable to the auditor and its affiliates for audit service provided to the Group is approximately HK$930,000 and for non-audit service provided is approximately HK$1,630,000 mainly for the purpose of reviewing internal control system and performing due diligence for the acquisition transaction. The auditors' remuneration has been duly approved by the audit committee and there was no disagreement between the Board and the audit committee on the selection and appointment of auditor.

4. Compliance with the Code on Corporate Governance Practices

The Company has complied with the Code throughout the financial year ended 31st December 2008 except for deviation from the code provision A4.1 below:

- Pursuant to A4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years.

- All independent non-executive directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

The Broad of Directors of the Company, present their report together with the audited consolidated financial statements of the company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 52 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the group's performance for the year by business category is set out in note 7 to the consolidated financial statements.

SEGMENTAL INFORMATION

The analysis of the Group's principal activities and geographical locations of customers of the group during the financial year are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for year ended 31 December 2008 are set out in the consolidated income statement on page 35.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the aggregate amount of turnover attribute to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase.

At no time during the year, the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in major customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 33, 46, and 35 to the consolidated financial statements, respectively.

RESERVES

Details of movements in the reserves of the group during the year are set out in the consolidated statement of changes in equity on page 37.

BANK BORROWINGS

Particulars of bank loans of the Group as at 31 December 2008 are set out in note 29 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 118.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executives:

Mr. Li Yu Gui *(Chairman)*	
Mr. Liu Peng Cheng *(Deputy Chairman)*	
Mr. Zhong Wen Sheng *(Managing Director)*	
Mr. Sze Chun Ning, Vincent *(Deputy Managing Director)*	(Resigned on 21 November 2008)
Mr. Liu Bai Yue *(Chief Operating Officer)*	
Mr. Shi De Mao	
Ms. Chu Yin Yin, Georgiana	
Mr. Yang Bin	(Appointed on 23 December 2008)
Mr. Wang Chia Chin	(Resigned on 10 June 2008)

Non-Executives:

Mr. Huang Yuan Wen
Mr. Pan Shi Ying

Independent Non-Executives:

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

In accordance with article 108(A) of the Company's Articles of Association, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, the directors included Mr. Shi De Mao, Ms. Chu Yin Yin, Georgiana, Mr. Zhong Wen Sheng and Mr. Wu Tak Lung respectively.

In accordance with article 112 of the Company's Articles of Association, at any time to appoint directors either to fill a causal vacancy or as an addition to the Board, they shall retire from office at the forthcoming Annual General Meeting ("AGM") and shall be eligible for re-election, the director included Mr. Yang Bin.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company are set out on pages 12 to 14 of the annual report.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out as "Share Option Scheme" below.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2008, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the articles of association of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2008, the interests and short positions of the Directors and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the "SFO") which had been notified of the Company and the stock exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken of have under such provisions of the SFO) or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock exchange (the "Listing Rules"), to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Total interest	Percentage of the issued share capital of the Company
Chu Yin Yin, Georgiana	Beneficial owner	6,432,000	6,432,000 (L)	0.39%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,890,900,000 Shares in issue as at 31 December 2008.

The letter "L" denotes a long position in shares of the Company.

(ii) Interest in underlying Shares

Name of director	Exercise price *(HK$)*	Exercise period	Number of underlying shares (under share options of the Company)	Approximate shareholding % *(Note)*
Chu Yin Yin, Georgiana	0.335	11 January 2007 to 10 January 2017	7,000,000	0.53
Liu Bai Yue	0.420	17 January 2007 to 16 January 2017	5,000,000	0.26

Note: For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,890,900,000 Shares in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, none of the directors or Chief executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Company and the stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, as far as known to the Directors or Chief Executive of the Company, the following persons (other than a Director or chief executive of the Company disclosed under the section "Directors' and Chief executive's interests in Securities" above) had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of shareholder	Capacity	Number of issued Shares held	Approximate Percentage of the issued share capital of the Company
Qu Xiao Sheng	Beneficial owner	310,150,000 *(Note 1)*	16.40%
Abax Arhat Fund	Interest of controlled corporation	228,873,239 *(Note 2)*	12.10%
Abax Claremont Limited	Interest of controlled corporation	228,873,239 *(Note 2)*	12.10%
Abax Global Capital	Interest of controlled corporation	228,873,239 *(Note 2)*	12.10%
Abax Global Opportunities Fund	Interest of controlled corporation	228,873,239 *(Note 2)*	12.10%
Abax Upland Fund, LLC	Interest of controlled corporation	228,873,239 *(Note 2)*	12.10%
Abax Lotus Limited	Beneficial owner	228,873,239 *(Note 2)*	12.10%
Ward Ferry Management (BVI) Limited	Investment Manager	132,092,000	6.99%

Note 1: These Shares are held by Boost Skill Investments Limited (as to 180,000,000 Shares) and Favor Jumbo Investments Limited (as to 130,150,000 Shares), each of which is wholly and beneficially owned by Mr. Qu Xiao Sheng who, after becoming a substantial shareholder on 17 March 2008, does not hold any position in the Group.

Note 2: These 228,873,239 underlying Shares are those Shares which would be issued upon exercise of the convertible rights attaching to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 31 July 2007. As the issued share capital of Abax Lotus Limited is held indirectly or directly by Abax Arhat Fund, Abax Claremont Limited, Abax Global Capital, Abax Global Opportunities Fund and Abax Upland Fund, LLC, they are deemed to be interested in the underlying Shares under SFO.

Note 3: For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,890,900,000 Shares in issue as at 31 December 2008.

Save as disclosed herein, there is no person known to the Directors or Chief Executive of the Company, no other person (other than a Director or chief executive of the Company), who, as at 31 December 2008, had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the normal value of any class of shares carrying rights to vote in all circumstances at general of the Company or any other members of the group and none of the Directors held any directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company Granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

CONNECTED TRANSACTIONS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 51 to the financial statements.

DIRECTORS' INTERESTS IN COMPLETING BUSINESS

During the year and up to the date of this report, none of the Directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which directors were appointed as directors to represent the interest of the Company and/or the Group.

SHARE OPTION SCHEME

The Company had adopted share option scheme on 17 January 2002 (the "Scheme") for which the details are set out in note 46 to the consolidated financial statements.

Details of the movements in the share options during the year ended 31 December 2008 under the Scheme are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2008	Exercisable period	Exercise Price per share of the Company
								HK$
Directors								
Chu Yin Yin, Georgiana	11 January 2007	3,000,000	–	–	–	3,000,000	11 January 2007 to 10 January 2017	0.335
Liu Bai Yue	17 January 2007	5,000,000	–	–	–	5,000,000	17 January 2007 to 16 January 2017	0.420
		8,000,000	–	–	–	8,000,0000		
Other eligible participant *(Note)*	11 January 2007	10,0000,000	–	–	–	10,000,000	11 January 2007 to 10 January 2017	0.335
Total as at 31 December 2008		**18,000,000**	**–**	**–**	**–**	**18,000,000**		

Note:

On 21 November 2008, Mr. Sze Chun Ning, Vincent ("Mr. Sze") has resigned as an Executive Director and deputy managing director of the Company but remains as a director of subsidiaries of the Company. In accordance with the adopted Share Option Scheme, Mr. Sze is still entitled to the granted share option benefit. To reflect appropriate category of participant, it was reclassified Mr. Sze from director to an other eligible participant.

PRE-EMPTIVE RIGHTS

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

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

There were no purchases, redemptions or sales of the Company's listed securities by the Company or any of its subsidiaries during the year.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees. The employees of the Group's subsidiaries which operates in the PRC are required to participate in the CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. Save as disclosed the Group was not required to operate any other of retirement benefits of its employees during the year.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 49 to the consolidated financial statements.

SUFFICIENT OF PUBLIC FLOAT

As far as the information publicly available to the company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 27 April 2009 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in this report).

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising three independent non-executive directors of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2008. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 20 of this Annual Report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 15 to 23 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own Code of Conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the year.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

AUDITORS

SHINEWING (HK) CPA Limited ("SHINEWING") retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment of SHINEWING as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
Li Yu Gui
Chairman

Hong Kong, 27 April 2009

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
CHINA WATER INDUSTRY GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 117, which comprise the consolidated balance sheet 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 year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
27 April 2009

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (restated)
Continuing operations			
Turnover	6	**289,875**	124,363
Revenue		**194,926**	124,363
Cost of sales		**(118,131)**	(98,061)
Gross profit		**76,795**	26,302
Other operating income	7	**9,461**	17,844
Change in fair value of convertible bonds		**64,537**	58,128
Selling and distribution costs		**(7,963)**	(3,491)
Administrative expenses		**(69,127)**	(45,111)
Convertible bonds issue expense		**–**	(13,520)
Share-based payment expense		**–**	(40,433)
Discount on acquisition of a business		**12,443**	–
Net fair value gain on disposal of debt securities		**1,142**	–
Net fair value gain on disposal of listed trading securities		**5,531**	–
Increase in fair values of financial assets at fair value through profit or loss		**2,620**	–
Impairment loss recognised in respect of trade and other receivables		**(8,311)**	(2,182)
Impairment loss recognised in respect of goodwill		**(7,837)**	–
Share of results of associates		**(3,265)**	(1,834)
Finance costs	9	**(10,280)**	(2,612)
Profit (loss) before tax	10	**65,746**	(6,909)
Income tax expense	12	**(6,937)**	(1,414)
Profit (loss) for the year from continuing operations		**58,809**	(8,323)
Discontinued operations			
Loss for the year from discontinued operations	13	**–**	(3,108)
Profit (loss) for the year		**58,809**	(11,431)
Attributable to:			
Equity holders of the Company		**43,942**	(22,164)
Minority interests		**14,867**	10,733
		58,809	(11,431)
Dividend	14	**–**	–
Earnings (loss) per share (HK cents)	15		
For the continuing and discontinued operations			
Basic		**2.32**	(1.26)
Diluted		**(0.91)**	(4.17)
From continuing operations			
Basic		**2.32**	(1.09)
Diluted		**(0.91)**	(4.01)
From discontinued operations			
Basic		**N/A**	(0.17)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	16	**129,947**	54,852
Prepaid lease payments	17	**76,443**	10,143
Intangible assets	18	**608,726**	191,354
Goodwill	19	**383,347**	77,333
Available-for-sale investments	20	**59,519**	–
Interest in an associate	21	**55,783**	7,617
Deposits paid for acquisition of subsidiaries	22	**–**	567,990
		1,313,765	909,289
Current assets			
Inventories	23	**12,882**	4,116
Trade and other receivables	24	**105,910**	58,514
Amount due from a related party	25	**–**	213
Amount due from a minority shareholder of a subsidiary	26	**1,952**	946
Prepaid lease payments	17	**1,794**	221
Cash held at financial institutions	27	**13,170**	30,000
Bank balances and cash	27	**135,472**	78,839
		271,180	172,849
Current liabilities			
Trade and other payables	28	**209,215**	29,770
Bank borrowings – repayable within one year	29	**32,716**	–
Other loans – repayable within one year	30	**42,395**	9,487
Amounts due to related parties	31	**–**	204
Amounts due to directors	31	**–**	223
Amounts due to minority shareholders of subsidiaries	32	**105,802**	–
Tax payables		**3,587**	281
		393,715	39,965
Net current (liabilities) assets		**(122,535)**	132,884
		1,191,230	1,042,173
Capital and reserves			
Share capital	33	**189,090**	189,090
Reserves		**326,989**	342,781
Equity attributable to equity holders of the Company		**516,079**	531,871
Minority interests		**194,862**	86,536
Total equity		**710,941**	618,407
Non-current liabilities			
Bank borrowings – due after one year	29	**27,076**	32,017
Other loans – due after one year	30	**45,940**	938
Loans from an associate/a minority shareholder of subsidiaries	34	**3,384**	11,738
Amounts due to minority shareholders of subsidiaries	32	**81,427**	–
Convertible bonds	35	**262,335**	326,872
Government grants	36	**55,763**	50,787
Deferred tax liabilities	37	**4,364**	1,414
		480,289	423,766
		1,191,230	1,042,173

The consolidated financial statements on pages 35 to 117 were approved and authorised for issue by the board of directors on 27 April 2009 and are signed on its behalf by:

Li Yu Gui
Chairman

Zhong Wen Sheng
Managing Director

For the year ended 31 December 2008

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 (Note)	Investment revaluation reserves HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	116,450	27,905	7,635	1,277	228	–	(101,767)	51,728	6,063	57,791
Exchange differences arising on translation of foreign operations	–	–	–	9,126	–	–	–	9,126	–	9,126
Reserve released through disposal of subsidiaries	–	–	–	677	(228)	–	228	677	–	677
Income and expenses directly recognised in equity	–	–	–	9,803	(228)	–	228	9,803	–	9,803
Loss for the year and total recognised income and expense for the year (as restated)	–	–	–	–	–	–	(22,164)	(22,164)	10,733	(11,431)
Issuance of new shares	53,000	377,700	–	–	–	–	–	430,700	–	430,700
Share issue expenses	–	(28,482)	–	–	–	–	–	(28,482)	–	(28,482)
Recognition of equity-settled share based payments	–	–	40,433	–	–	–	–	40,433	–	40,433
Exercise of share options	19,640	40,970	(10,757)	–	–	–	–	49,853	–	49,853
Cancellation of share options	–	–	(36,584)	–	–	–	36,584	–	–	–
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	21,587	21,587
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	48,153	48,153
At 31 December 2007 and 1 January 2008 (As restated)	189,090	418,093	727	11,080	–	–	(87,119)	531,871	86,536	618,407
Decrease in fair value of available-for-sale investments	–	–	–	–	–	(69,905)	–	(69,905)	(8,489)	(78,394)
Exchange differences arising on translation of foreign operations	–	–	–	8,753	–	–	–	8,753	6,564	15,317
Share of exchange reserve of an associate	–	–	–	2,189	–	–	–	2,189	–	2,189
Income and expenses directly recognised in equity	–	–	–	10,942	–	(69,905)	–	(58,963)	(1,925)	(60,888)
Profit for the year	–	–	–	–	–	–	43,942	43,942	14,867	58,809
Investment revaluation reserve released on disposal	–	–	–	–	–	(771)	–	(771)	–	(771)
Total recognised income and expense for the year	–	–	–	–	–	(771)	43,942	43,171	14,867	58,038

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share options reserve	Translation reserve	Reserve funds	Investment revaluation reserves	Accumulated losses	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	58,734	58,734
Dividends paid to minority shareholder	–	–	–	–	–	–	–	–	(13,983)	(13,983)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	91,730	91,730
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	–	–	(54,208)	(54,208)
Transfer	–	–	–	–	2,417	–	(2,417)	–	–	–
Partial disposal of a subsidiary	–	–	–	–	–	–	–	–	13,111	13,111
At 31 December 2008	189,090	418,093	727	22,022	2,417	(70,676)	(45,594)	516,079	194,862	710,941

Note: As stipulated in the relevant laws and regulations, certain subsidiaries operating in the People's Republic of China (the "PRC") are required to maintain certain statutory reserves (the "Reserve Funds"). Appropriations to the Reserve Funds are made out of net profit as reported in the PRC statutory financial statements. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of dividends.

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit (loss) before tax – continuing	**65,746**	(6,909)
Loss before tax – discontinued	**–**	(9,305)
Profit (loss) before tax	**65,746**	(16,214)
Adjustments for:		
Amortisation of intangible assets	**16,625**	3,476
Bad debt directly written off on trade receivables	**101**	–
Depreciation of property, plant and equipment	**4,230**	5,307
Impairment loss on trade and other receivables	**8,311**	5,408
Impairment loss on goodwill	**7,837**	–
Change in fair value of convertible bonds	**(64,537)**	(58,128)
(Gain) loss on disposal of property, plant and equipment	**(57)**	1,065
Convertible bonds issue expense	**–**	13,520
Write down of inventories	**1,800**	8,352
Share-based payment expense	**–**	40,433
Amortisation of prepaid lease payments	**1,164**	132
Finance costs	**10,280**	2,827
Loss on partial disposal/deconsolidation of a subsidiary	**140**	98
Share of results of associates	**3,265**	1,834
Net gain on disposal of securities	**(1,142)**	–
Net fair value change on listed trading securities	**(5,531)**	–
Increase in fair values of financial assets at fair value through profit or loss	**(2,620)**	–
Gain on disposal of convertible bond receivables	**(1,328)**	–
Gain on disposal of subsidiaries	**–**	(779)
Discount on acquisition of a business	**(12,443)**	–
Written back of long outstanding payables	**–**	(617)
Bank interest income	**(2,414)**	(10,343)
Operating cash flows before movements in working capital	**29,427**	(3,629)
(Increase) decrease in inventories	**(3,488)**	590
Increase in trade and other receivables	**(22,927)**	(15,422)
Decrease in held-for-trading investment	**70,232**	–
Decrease in financial asset at fair value through profit or loss	**19,174**	–
Increase in available-for-sales investments	**(119,007)**	–
Decrease in trade and other payables	**(10,183)**	(59,879)
Cash used in operations	**(36,772)**	(78,340)
Income taxes paid	**(681)**	(124)
NET CASH USED IN OPERATING ACTIVITIES	**(37,453)**	(78,464)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (restated)
INVESTING ACTIVITIES			
Net cash inflow (outflow) in respect of the acquisition of subsidiaries	40	**59,088**	(32,473)
Refund from deposit paid for acquisition of additional interest in a subsidiary		**26,916**	–
Net cash inflow in respect of partial disposal of a subsidiary		**16,770**	–
Proceeds from disposal of an associate		**4,000**	–
Proceeds from disposal of convertible bonds receivable		**4,000**	–
Interest received		**2,414**	10,343
Proceeds from disposals of property, plant and equipment		**963**	–
Repayment from (advance) to a related party		**225**	(213)
Acquisition of intangible assets		**(52,713)**	(96,557)
Purchase of property, plant and equipment		**(15,863)**	(5,054)
Acquisition of prepaid lease payment		**(7,313)**	–
(Advance to) repayment due from a minority shareholder of subsidiaries		**(941)**	1,923
Net cash outflow from disposal of subsidiaries	41	**–**	(762)
Net cash outflow from deconsolidation of a subsidiary	42	**–**	(515)
Increase in deposits paid for acquisition of subsidiaries		**–**	(567,990)
Direct expenses paid for acquisition of subsidiaries		**–**	(1,582)
Decrease in pledged bank deposits		**–**	2,061
Cost paid directly attributable to the acquisition of equity interest in an associate		**–**	(1,592)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**37,546**	(692,411)
FINANCING ACTIVITIES			
Contribution from minority shareholders of subsidiaries		**26,938**	21,587
New bank borrowings raised		**20,371**	43,755
Advance from minority shareholders of subsidiaries		**19,649**	–
Increase in government grants		**2,078**	–
Dividend paid to minority shareholder		**(13,983)**	–
Repayment of loan from an associate		**(9,024)**	–
Repayment of bank borrowings and other loans		**(5,024)**	(10,855)
Interest paid		**(4,948)**	(2,060)
Repayments to directors		**(223)**	(2,611)
(Repayment to) advance to related parties		**(216)**	3,395
Proceeds from issue of ordinary shares		**–**	430,700
Proceeds from exercise of share options		**–**	49,853
Proceeds from issue of convertible bonds		**–**	385,000
Payment for convertible bonds issue expense		**–**	(13,520)
Payment for share issue expenses		**–**	(28,482)
Repayment of obligations under finance leases		**–**	(385)
NET CASH FROM FINANCING ACTIVITIES		**35,618**	876,377
NET INCREASE IN CASH AND CASH EQUIVALENTS		**35,711**	105,502
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**108,839**	5,045
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**4,092**	(1,708)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash and cash held at financial institutions		**148,642**	108,839

1. GENERAL

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries (the "Group") is HK$. The reason for selecting HK$ as its presentation currency is because the Company is a public company with its shares listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 52.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis notwithstanding the consolidated net current liabilities of approximately HK$122,535,000 as at 31 December 2008. In the opinion of the directors of the Company, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration that the Group's net current liabilities as at 31 December 2008 are mainly contributed by Longwide Investment Limited and its subsidiaries (the "Longwide Group"), which amounted to approximately HK$134,175,000 as at 31 December 2008. On 26 March 2009, the Group entered into a sale and purchase agreement with Bright Blue Investments Limited ("Bright Blue") (皓藍投資有限公司), an independent acquirer, for the disposal of the Group's entire interest in Longwide Group and a shareholder's loan amounted to approximately HK$57,000 at a consideration of HK$50,000,000. Details of this transaction had been set out in the Company's announcement dated 27 March 2009. This transaction was completed on 2 April 2009.

On the basis that after disposal of Longwide Group, the Group's financial position will be improved and the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligation as and when they fall due for the twelve months from 31 December 2008. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Interpretation ("INT") 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs interpretations, other than HK(IFRIC)-INT 12, which are detailed as below, had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

Service concession arrangements

In the current year, the Group has applied HK(IFRIC)-INT 12 "Service Concession Arrangements" which is effective for annual periods beginning on or after 1 January 2008.

The Group as a water supply and sewage treatment operator has access to operate the water supply and sewage treatment infrastructures to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement contract.

HK(IFRIC)-INT 12 provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services.

In prior years, the construction costs incurred on the water supply and sewage treatment infrastructures, which the Group is entitled to operate for the specified concession period, was recorded as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. Depreciation of the water supply and sewage treatment infrastructures was calculated to write off their costs, over their expected useful life or the remaining concession period, whichever was shorter, commencing from the date of commencement of commercial operation of the water supply and sewage treatment, on a straight-line basis.

In accordance with HK(IFRIC)-INT 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the infrastructure, this interpretation require the operator to account for its revenue and costs in accordance with HKAS 11 "Construction Contracts" for the construction and upgrade services of the infrastructure and to account for the fair value of the consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 "Intangible Assets" to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the services in relation to the operation of the water supply and sewage treatment infrastructures in accordance with HKAS 18 "Revenue".

For the annual period beginning 1 January 2008, the Group has applied this interpretation retrospectively and the financial impact on acquisition of this interpretation is summarised below.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Summary of the effects of the changes in accounting policies

The effect of changes in accounting policies resulted from adoption of HK(IFRIC)-INT 12 for the current and prior year by line items are as follows:

	2008	2007
	HK$'000	*HK$'000*
Increase in revenue on construction	**23,744**	50,076
Increase in construction cost	**(22,137)**	(44,883)
Decrease in depreciation expense	**21,533**	3,938
Increase in amortisation expense	**(16,625)**	(3,476)
Increase in deferred tax expense	**(1,629)**	(1,414)
Increase/decrease in profit/loss for the year	**4,886**	4,241

The effect of the application of the new interpretation as at 31 December 2007 is summarised below:

	As at 31 December 2007 (originally stated)	Adjustments	As at 31 December 2007 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Balance sheet items			
Property, plant and equipment	240,551	(185,699)	54,852
Intangible assets	–	191,354	191,354
Total effects on assets	240,551	5,655	246,206
Deferred tax liabilities and total effects on liabilities	–	1,414	1,414
Accumulated losses	(89,299)	2,180	(87,119)
Minority interests	84,475	2,061	86,536
Total effects on accumulated losses and equity	(4,824)	4,241	(583)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Summary of the effects of the changes in accounting policies *(Continued)*

The effects of the application of the new interpretation on the Group's basic earnings (loss) per share for the current and prior year:

Impact on basic earnings (loss) per share

	2008	2007
	HK cents	*HK cents*
For the continuing and discontinued operations		
Reported figures before adjustments	**2.16**	(1.39)
Adjustments arising from changes in accounting policies	**0.16**	0.13
Restated	**2.32**	(1.26)

For continuing operations

	2008	2007
	HK cents	*HK cents*
Reported figures before adjustments	**2.16**	(1.22)
Adjustments arising from changes in accounting policies	**0.16**	0.13
Restated	**2.32**	(1.09)

For discontinued operations

	2008	2007
	HK cents	*HK cents*
Reported figures before adjustments	**N/A**	(0.17)
Adjustments arising from changes in accounting policies	**N/A**	–
Restated	**N/A**	(0.17)

Impact on diluted loss per share

	2008	2007
	HK cents	*HK cents*
Reported figures before adjustments	**(1.05)**	(4.29)
Adjustments arising from changes in accounting policies	**0.14**	0.12
Restated	**(0.91)**	(4.17)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instrument Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[4]
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[5]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[7]

1 Effective for annual periods on or after 1 January 2009, except the amendments to HKFRS 5, 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 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for annual periods ending on or after 30 June 2009.
7 Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Acquisition of additional interest in subsidiary

Additional interest in a subsidiary is measured at the carrying amounts of identified assets and liabilities of the subsidiary and any excess of the consideration over the book value of net assets attributable to the additional interest acquired are accounted for as goodwill.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, represents the excess of the net fair value if an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination, after reassessment. Discount on acquisition is recognised immediately in profit or loss.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction-in-progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction-in-progress is carried at cost less any recognised impairment loss. Construction-in-progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

Development costs

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as expense in the year in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Water supply and sewage treatment service concession arrangements

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets based on fair value of the consideration paid upon initial recognition. Subsequent costs incurred on water supply and sewage treatment infrastructures and upgrading services are recognised as additional costs of the water supply and sewage treatment service concession rights. The concession intangible assets representing water supply and sewage treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses.

The concession intangible assets are amortised to write-off their cost, over their expected useful lives in the remaining concession period using an amortisation period which reflects the pattern in which their future economic benefits are expected to be consumed on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the water supply and sewage treatment infrastructures are recognised as expenses in the periods in which they are incurred.

Prepaid lease payments

Payment for obtaining land use right is considered as operating lease payment. Prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

Construction contracts

Where the outcome of a construction contract including construction services of the infrastructure under a service concession arrangement can be estimated reliably, contract costs are recognised in the consolidated income statement by reference to the total cost incurred of the contract activity at the balance sheet date on the same basis as the contract revenue recognised. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on effective interest basis for the debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party and a minority shareholder of a subsidiary, cash held at financial institutions and bank balance and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, except for foreign exchange gains and losses on monetary items such as debt securities which are recognised in the consolidated income statement, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets other than FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all of the Group's financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designed as FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL are those designated at FVTPL on initial recognition.

At financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition financial liabilities at FVTPL are measured at fair value, with changes at fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related parties and directors, amounts due to minority shareholders of subsidiaries, loan from an associate/a minority shareholder of subsidiaries, bank borrowings and other loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible bonds

Convertible bonds issued by the Group (including related embedded derivatives) are designated as FVTPL on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees (on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005)

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issue are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees of the Company (after 7 November 2002 and vested on or after 1 January 2005)

The fair value of services received are determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to employees of the Company (after 7 November 2002 and vested on or after 1 January 2005) (Continued)

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits (losses).

Share options granted to eligible persons

Share options issued in exchange for services are measured at fair values of services received, unless that fair value cannot be reliably measured, in which case services received measured by reference to the fair value of the share options granted. The fair values of services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Government grants

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs. Government grants relating to the purchase of assets are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and reported separately as "other operating income".

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment loss on tangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying an amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Revenue arising from water supply is recognised based on water supplied as recorded by meter readings during the year.

Revenue from sewage treatment is recognised based on actual sewage treated from meter readings during the year.

Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Sales of available-for-sale investments and equity investments at fair value through profit or loss are recognised on a trade date basis.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Revenue from construction contracts is recognised when the outcome of a construction contract including construction services of the water supply/sewage treatment infrastructures under a service concession arrangement, can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases.

Borrowing costs

Borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

The subsidiaries in the PRC participate in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group will respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are charged as expenses as they fall due in accordance with the rules of the CPS.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the critical judgment, apart from those involving estimations, that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statement.

Land use right

Despite the Group has paid the full purchase consideration as detailed in Note 17, certain of the Group's legal titles to certain land use rights has not been granted by the relevant government authorities. Despite the fact the Group has not obtained the relevant legal title, the director of the Company determine to recognize these land use rights on the ground that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling these land use rights.

Going concern basis

Although the Group had net current liabilities at the balance sheet date, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group's liquidity requirements in the short and long term. The directors consider the Group has no significant liquidity risk.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated income statement.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2008, the carrying amount of trade receivables was approximately HK$16,587,000 (net of impairment loss of approximately HK$4,754,000).

Impairment loss recognised in respect of other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amounts of other receivables are HK$86,104,000 (net of impairment loss of HK$6,931,000).

Impairment of intangible assets

The Group determines whether an asset 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 asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. As at 31 December 2008, the carrying amounts of intangible assets was approximately HK$608,726,000.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amounts of goodwill was approximately HK$383,347,000 (net of impairment loss of approximately HK$7,837,000). Details of impairment testing on goodwill are set out in Note 19.

Fair values of convertible bonds

The fair values of the convertible bonds involve assumptions on the Company's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation.

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

Revenue from the construction service 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.

6. TURNOVER

Turnover represents revenue arising from sales of watches, water supply, sewage treatment, water supply related installation and construction and water supply and sewage treatment infrastructures construction as well as revenue from investments.

An analysis of the Group's turnover for the year, for both continuing and discontinued operations, is as follows:

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Trading of watches and accessories	**–**	14,601
Provision of water supply	**78,547**	24,430
Water supply related installation and construction revenue	**65,942**	28,424
Sewage treatment	**25,285**	6,832
Water supply and sewage treatment infrastructures construction income	**23,744**	50,076
Interest income from debt securities	**47**	–
Dividends from listed securities	**527**	–
Proceeds from debt securities	**19,132**	–
Proceeds from held-for-trading investments	**61,535**	–
Proceeds from financial assets at fair value through profit or loss	**14,282**	–
Others	**834**	–
	289,875	124,363
Discontinued operations		
Sales of computer peripherals	**–**	20,576
	289,875	144,939

7. OTHER OPERATING INCOME

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	**2,414**	10,337
Gain on disposal of property, plant and equipment	**57**	–
Gain on disposal of convertible bond receivables	**1,328**	–
Government subsidies *(Note a)*	**1,910**	–
Net foreign exchange gain	**–**	163
Compensation income *(Note b)*	**–**	5,366
Gain on disposal of subsidiaries	**–**	779
Written back of long outstanding payables	**–**	617
Others	**3,752**	582
	9,461	17,844
Discontinued operations		
Bank interest income	**–**	6
Net foreign exchange gain	**–**	322
Others	**–**	583
	–	911
	9,461	18,755

Notes:

a. The amounts represented the unconditional subsidies granted from the PRC government in relation to the repair and maintenance of the underground water pipelines due to the snow disaster for the year ended 31 December 2008 (2007: Nil).

b. Pursuant to several agreements entered between the Group and the minority shareholders of the respective subsidiaries, the minority shareholders, being the former sole shareholders of the respective subsidiaries, had guaranteed a minimum profit to the Group (the "Guarantee Profits"). The Group will be compensated by the respective minority shareholders for the shortfall on the Guaranteed Profits. During the year ended 31 December 2007, the Group recognised an income at an aggregate sum of approximately HK$5,366,000 (2008: Nil) to compensate the shortfall of the Guaranteed Profits for the year ended 31 December 2007.

8. SEGMENT INFORMATION

Business segments

For management purposes, the Group is organised into five operating divisions – provision of water supply and sewage treatment in the PRC, construction of water supply and sewage treatment infrastructures, investment in financial and investment products, trading of watches and accessories and others during the year. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(a) provision of water supply and sewage treatment;

(b) construction of water supply and sewage treatment infrastructures;

(c) investment in financial and investment products;

(d) trading of watches and accessories; and

(e) others.

The Group was also involved in the production and sale of computer peripherals during the year ended 31 December 2007. That operation was discontinued on 28 December 2007 (see note 13).

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

For the year ended 31 December

	Continuing operations												Discontinued operations			
	Provision of water supply and sewage treatment		Construction of water supply and sewage treatment infrastructures		Investment in financial and investment products		Trading of watches and accessories		Others		Sub-total		Production and sale of computer peripherals		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
SEGMENT REVENUE																
Sales to external customers	**169,774**	59,686	**23,744**	50,076	**574**	–	**–**	14,601	**834**	–	**194,926**	124,363	**–**	20,576	**194,926**	144,939
SEGMENT RESULTS	**25,538**	8,362	**1,607**	5,193	**11,278**	–	**–**	(18,949)	**286**	–	**38,709**	(5,394)	**–**	(6,775)	**38,709**	(12,169)
Unallocated corporate income											**2,550**	17,065	**–**	911	**2,550**	17,976
Unallocated corporate expenses											**(22,800)**	(16,906)	**–**	–	**(22,800)**	(16,906)
Gain on disposal of subsidiaries											**–**	779	**–**	6,241	**–**	7,020
Change in fair value of convertible bonds											**64,537**	58,128	**–**	–	**64,537**	58,128
Discount on acquisition of a business	**12,443**	–	**–**	–	**–**	–	**–**	–	**–**	–	**12,443**	–	**–**	–	**12,443**	–
Convertible bonds issue expense											**–**	(13,520)	**–**	–	**–**	(13,520)
Impairment loss recognised in respect of trade and other receivables	**(8,311)**	(1,427)	**–**	–	**–**	–	**–**	(755)	**–**	–	**(8,311)**	(2,182)	**–**	(3,226)	**(8,311)**	(5,408)
Impairment loss recognised in respect of goodwill	**(7,837)**										**(7,837)**	–	**–**	–	**(7,837)**	–
Share-based payment expense											**–**	(40,433)	**–**	–	**–**	(40,433)
Share of results of associates	**(3,265)**	(1,834)	**–**	–	**–**	–	**–**	–	**–**	–	**(3,265)**	(1,834)	**–**	–	**(3,265)**	(1,834)
Financial costs											**(10,280)**	(2,612)	**–**	(215)	**(10,280)**	(2,827)
Profit (loss) before tax											**65,746**	(6,909)	**–**	(3,064)	**65,746**	(9,973)
Income tax expense											**(6,937)**	(1,414)	**–**	(44)	**(6,937)**	(1,458)
Profit (loss) for the year											**58,809**	(8,323)	**–**	(3,108)	**58,809**	(11,431)

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below: *(Continued)*

For the year ended 31 December *(Continued)*

	Continuing operations												Discontinued operations			
	Provision of water supply and sewage treatment		Construction of water supply and sewage treatment infrastructures		Investment in financial and investment products		Trading of watches and accessories		Others		Sub-total		Production and sale of computer peripherals		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
OTHER INFORMATION:																
Unallocated depreciation of property, plant and equipment											**709**	8	**–**	–	**709**	8
Depreciation of property, plant and equipment	**3,350**	2,017	**–**	–	**73**	–	**–**	62	**98**	–	**3,521**	2,079	**–**	3,220	**3,521**	5,299
Total depreciation of property, plant and equipment											**4,230**	2,087	**–**	**3,220**	4,230	**5,307**
Amortisation of prepaid lease payments	**1,164**	132	**–**	–	**–**	–	**–**	–	**–**	–	**1,164**	132	**–**	–	**1,164**	132
Amortisation of intangible assets	**16,625**	3,476	**–**	–	**–**	–	**–**	–	**–**	–	**16,625**	3,476	**–**	–	**16,625**	3,476
Bad debt directly written off on trade receivables	**101**	–	**–**	–	**–**	–	**–**	–	**–**	–	**101**	–	**–**	–	**101**	–
Write down of inventories	**1,800**	–	**–**	–	**–**	–	**–**	3,144	**–**	–	**1,800**	3,144	**–**	5,208	**1,800**	8,352
Unallocated loss on partial disposal/deconsolidation of a subsidiary											**140**	98	**–**	–	**140**	98
Loss on disposal of property, plant and equipment	**–**	49	**–**	–	**–**	–	**–**	544	**–**	–	**–**	593	**–**	472	**–**	1,065
Gain on disposal of property, plant and equipment	**(57)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(57)**	–	**–**	–	**(57)**	–
Capital expenditures	**108,527**	101,611	**–**	–	**141**	–	**–**	–	**2,056**	–	**110,724**	101,611	**–**	–	**110,724**	101,611
Unallocated capital expenditures											**1,650**	–	**–**	–	**1,650**	–
Total capital expenditures											**112,374**	101,611	**–**	–	**112,374**	101,611

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below: *(Continued)*

For the year ended 31 December *(Continued)*

	Continuing operations												Discontinued operations			
	Provision of water supply and sewage treatment		Construction of water supply and sewage treatment infrastructures		Investment in financial and investment products		Trading of watches and accessories		Others		Sub-total		Production and sale of computer peripherals		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
Assets																
Segment assets	**899,277**	278,613	**–**	–	**108,319**	–	**–**	1,211	**10,491**	–	**1,018,087**	279,824	**–**	–	**1,018,087**	279,824
Interest in an associate	**55,983**	7,617	**–**	–	**–**	–	**–**	–	**–**	–	**55,783**	7,617	**–**	–	**55,783**	7,617
Unallocated segment assets											**511,075**	794,697	**–**	–	**511,075**	794,697
											1,584,945	1,082,138	**–**	–	**1,584,945**	1,082,138
Liabilities																
Segment liabilities	**205,602**	26,139	**–**	–	**–**	–	**–**	1,152	**898**	–	**206,500**	27,291	**–**	–	**206,500**	27,291
Unallocated segment liabilities											**667,504**	436,440	**–**	–	**667,504**	436,440
											874,004	463,731	**–**	–	**874,004**	463,731

8. SEGMENT INFORMATION *(Continued)*

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Europe	**15,078**	2,465
The PRC, Hong Kong and Taiwan	**193,599**	142,118
North America	**48,579**	356
Australia	**10,729**	–
Japan	**10,269**	–
Asia Pacific (other than Japan)	**8,263**	–
Others	**3,358**	–
	289,875	144,939

Revenue from the Group's discontinued production and sale of computer peripherals was derived principally from the PRC, Hong Kong and Taiwan.

All segment assets and additions of property, plant and equipment and intangible assets are located in the PRC, Hong Kong and Taiwan.

9. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
– Interest on convertible bonds	**963**	393
– Bank borrowings wholly repayable within five years	**2,470**	207
– Bank borrowings wholly repayable more than five years	**2,770**	–
– Other loans wholly repayable within five years	**2,130**	1,171
– Other loans wholly repayable more than five years	**1,298**	21
– Amounts due to minority shareholders of subsidiaries	**361**	673
– Loan from an associate/a minority shareholder of subsidiaries	**288**	354
– Others	**–**	8
	10,280	2,827
Attributable to:		
Continuing operations	**10,280**	2,612
Discontinued operations	**–**	215
	10,280	2,827

10. PROFIT (LOSS) BEFORE TAX

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)				(restated)
Profit (loss) before tax has been arrived at after charging:						
Amortisation of prepaid lease payments	**1,164**	132	**–**	–	**1,164**	132
Amortisation of intangible assets (included in cost of sales)	**16,625**	3,476	**–**	–	**16,625**	3,476
Auditors' remuneration	**930**	600	**–**	–	**930**	600
Bad debts directly written off on trade receivables	**101**	–	**–**	–	**101**	–
Convertible bonds issue expense	**–**	13,520	**–**	–	**–**	13,520
Cost of inventories recognised as expenses	**20,187**	27,909	**–**	7,901	**20,187**	35,810
Depreciation of property, plant and equipment	**4,230**	2,087	**–**	3,220	**4,230**	5,307
Loss on partial disposal/deconsolidation of a subsidiary	**140**	98	**–**	–	**140**	98
Loss on disposal of property, plant and equipment	**–**	593	**–**	472	**–**	1,065
Minimum lease payment under operating leases	**3,020**	1,427	**–**	1,459	**3,020**	2,886
Net exchange loss	**953**	–	**–**	–	**953**	–
Share-based payment *(Note)*	**–**	39,381	**–**	–	**–**	39,381
Staff costs excluding directors' emoluments						
– Salaries, wages and other benefits	**33,211**	13,144	**–**	4,466	**33,211**	17,610
– Retirement benefits scheme contributions	**4,270**	940	**–**	291	**4,270**	1,231
Total staff costs	**37,481**	14,084	**–**	4,757	**37,481**	18,841
Write down of inventories (included in cost of sales)	**1,800**	3,144	**–**	5,208	**1,800**	8,352

Note: The amounts represented the fair value of consultancy services provided to the Group during the year ended 31 December 2007 in relation to identifying potential water projects in the PRC. The consultancy service fees were settled through the issue of 427,800,000 share options for the year ended 31 December 2007 as set out in Note 46.

11. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

The emolument paid or payable to each of the 14 (2007: 15) directors were as follows:

For the year ended 31 December 2008

Name	Fees	Other emoluments: Salaries, allowance and benefits in kind	Other emoluments: Retirement benefits scheme contributions	Other emoluments: Share based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Li Yu Gui	–	325	–	–	325
Liu Peng Cheng	–	146	7	–	153
Zhong Wen Sheng	–	539	–	–	539
Liu Bai Yue	–	462	12	–	474
Shi De Mao	–	154	–	–	154
Chu Yin Yin, Georgiana	–	539	12	–	551
Yang Bin[3]	–	71	–	–	71
Sze Chun Ning, Vincent[1]	–	355	11	–	366
Wang Chia Chin[2]	–	500	–	–	500
	–	3,091	42	–	3,133
Non-executive directors:					
Huang Yuan Wen	–	85	–	–	85
Pan Shi Ying	–	85	–	–	85
	–	170	–	–	170
Independent non-executive directors:					
Chang Kin Man	120	–	–	–	120
Wu Tak Lung	144	–	–	–	144
Gu Wen Xuan	120	–	–	–	120
	384	–	–	–	384
Total	384	3,261	42	–	3,687

1. Resigned on 21 November 2008.
2. Resigned on 10 June 2008.
3. Appointed on 23 December 2008.

11. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2007

		Other emoluments			
Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	Share based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Li Yu Gui[2]	–	45	–	–	45
Liu Peng Cheng[4]	–	–	–	–	–
Zhong Wen Sheng	–	405	–	–	405
Liu Bai Yue[3]	–	360	12	312	684
Shi De Mao	–	120	–	–	120
Chu Yin Yin, Georgiana	–	555	12	370	937
Sze Chun Ning, Vincent	–	424	12	370	806
Wang Xiao Bo[5]	–	90	–	–	90
Wu Chi Lok[1]	–	–	–	–	–
Wang Chia Chin	–	–	–	–	–
	–	1,999	36	1,052	3,087
Non-executive directors:					
Huang Yuan Wen	–	73	–	–	73
Pan Shi Ying	–	73	–	–	73
	–	146	–	–	146
Independent non-executive directors:					
Chang Kin Man	150	–	–	–	150
Wu Tak Lung	120	–	–	–	120
Gu Wen Xuan	100	–	–	–	100
	370	–	–	–	370
Total	370	2,145	36	1,052	3,603

1. Resigned on 16 January 2007.
2. Appointed on 25 October 2007.
3. Appointed on 8 January 2007.
4. Appointed on 25 June 2007.
5. Resigned on 25 June 2007.

There was no arrangement under which directors waived or agreed to waive any emoluments during the two years ended 31 December 2008.

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

11. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(Continued)*

(b) Employees' emoluments

Details of the five highest paid individuals included four (2007: four) directors, whose emoluments are set out in (a) above. The emoluments of the remaining one (2007: one) highest paid individuals were as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries, allowance and benefits in kind	**382**	326
Retirement benefits scheme contributions	**12**	12
	394	338

Their emoluments were within the following bands:

	No. of employees	
	2008	2007
Nil to HK$1,000,000	**1**	1

No emolument was paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, during the two years ended 31 December 2008.

12. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Current tax:		
– Hong Kong	**–**	44
– PRC Enterprise Income Tax ("EIT")	**3,987**	–
	3,987	44
Deferred tax *(Note 37)*	**2,950**	1,414
	6,937	1,458
Attributable to:		
Continuing operations	**6,937**	1,414
Discontinued operations	**–**	44
	6,937	1,458

12. INCOME TAX EXPENSE *(Continued)*

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% and 16.5% effective from the year of assessment 2008/2009. Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived for the year ended 31 December 2008.

Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the year ended 31 December 2007.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC EIT for two years from the first profit making year, followed by a 50% reduction for the next three years.

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the EIT rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2007: 15% and 33%).

The income tax expense for the year can be reconciled to the profit (loss) before tax per the consolidated income statement as follows:

	2008 ***HK$'000***	2007 *HK$'000* (restated)
Profit (loss) before tax – continuing	**65,746**	(6,909)
Loss before tax – discontinued	**–**	(9,305)
Profit (loss) before tax	**65,746**	(16,214)
Tax at the domestic income tax rate of 25% (2007: 17.5%)	**16,436**	(2,837)
Tax effect of share of results of associates	**816**	321
Tax effect of expenses not deductible for tax purpose	**14,783**	16,481
Tax effect of income not taxable for tax purpose	**(15,587)**	(12,312)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(5,409)**	1,381
Effect of tax exemption granted to PRC subsidiaries	**(7,550)**	(4,234)
Tax effect of deductible temporary differences not recognised	**2,127**	2,658
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries from 1 January 2008 onwards	**1,321**	–
Income tax expense for the year	**6,937**	1,458

Details of deferred taxation are set out in Note 37.

13. DISCONTINUED OPERATIONS

On 13 November 2007, the Group entered into an agreement to dispose of a subsidiary, Pablo Enterprise Limited ("Pablo"), which carried out all of the Group's production and sale of computer peripherals operations. The disposal was effected in order to focus the Group's resources in its remaining businesses. The disposal was completed on 28 December 2007 on which date control of Pablo Enterprise Limited passed to the acquirer.

The loss for the year from the discontinued operations was analysed as follows:

	2007 *HK$'000*
Loss on production and sale of computer peripherals operations for the period	(9,349)
Gain on disposal of production and sale of computer peripherals operations	6,241
	(3,108)

The results of the production and sale of computer peripherals operations for the period from 1 January 2007 to 28 December 2007, which had been included in the consolidated income statement, were as follows:

	HK$'000
Turnover	20,576
Cost of sales	(19,922)
Gross profit	654
Other operating income	911
Selling and distribution costs	(748)
Administrative expenses	(6,681)
Impairment loss recognised in respect of trade receivables	(3,226)
Finance costs	(215)
Loss before tax	(9,305)
Income tax expense	(44)
Loss for the period and attributable to equity of the Company	(9,349)

During the year, Pablo Group contributed approximately HK$4,026,000 to the Group's net operating cash flows, paid approximately HK$868,000 in respect of investing activities and paid approximately HK$600,000 in respect of financing activities.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

15. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of basic and diluted earnings (loss) per share attributable to equity holders of the Company for the year is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share (Earnings (loss) for the year attributable to equity holders of the Company)	**43,942**	(22,164)
Effect of dilutive potential shares:		
– interest on convertible bonds	**963**	393
– change in fair value of convertible bonds	**(64,537)**	(58,128)
Loss for the purposes of diluted earnings per share	**(19,632)**	(79,899)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,890,900**	1,754,342
Effect of dilutive potential shares:		
– share options issued by the Company *(Note)*	**–**	47,794
– conversion of convertible bonds	**271,127**	112,165
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**2,162,027**	1,914,301

Note: The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as exercise price of those options is higher than the average market price for shares for 2008.

15. EARNINGS (LOSS) PER SHARE *(Continued)*

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Earnings (loss) for the year attributable to equity holders of the Company	**43,942**	(22,164)
Less: Loss for the year from discontinued operations attributable to equity holders of the Company *(Note 13)*	**–**	(3,108)
Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations	**43,942**	(19,056)
Effect of dilutive potential shares:		
– interest on convertible bonds	**963**	393
– change in fair value of convertible bonds	**(64,537)**	(58,128)
Loss for the purposes of diluted earnings (loss) per share from continuing operations	**(19,632)**	(76,791)

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

From discontinued operations

Basic loss per share for discontinued operations was HK0.17 cents for the year ended 31 December 2007 based on the loss for the year from the discontinued operations of approximately HK$3,108,000 and the denominators detailed above for basic loss per share for the year ended 31 December 2007.

No diluted loss per share for discontinued operations had been presented as the effect of the conversion of the Company's outstanding share options and conversion of convertible bonds was anti-dilutive for the year ended 31 December 2007.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Water pipeline HK$'000	Total HK$'000
COST							
At 1 January 2007 as originally stated	12,300	43,730	4,331	2,779	17,439	20,304	100,883
Effect of changes in accounting policies	–	–	–	–	(16,928)	–	(16,928)
At 1 January 2007 as restated	12,300	43,730	4,331	2,779	511	20,304	83,955
Acquired on acquisition of subsidiaries	5,904	–	58	1,931	13,719	–	21,612
Additions	516	785	667	2,888	198	–	5,054
Transfers	–	3,460	–	–	(3,987)	527	–
Disposals of subsidiaries	(5,059)	(48,398)	(245)	(2,344)	–	–	(56,046)
Deconsolidation of a subsidiary	–	(31)	–	–	–	–	(31)
Disposals	–	(708)	(347)	(722)	–	–	(1,777)
Exchange realignment	773	2,179	22	156	23	1,450	4,603
At 31 December 2007	14,434	1,017	4,486	4,688	10,464	22,281	57,370
Acquired on acquisition of subsidiaries/business	18,438	737	3,795	1,373	12,488	22,810	59,641
Additions	9,910	417	1,207	3,810	2,338	161	17,843
Transfers	10,259	–	–	–	(10,288)	29	–
Disposals	(405)	(134)	(724)	(523)	–	–	(1,786)
Exchange realignment	1,040	12	73	288	19	1,419	2,851
At 31 December 2008	**53,676**	**2,049**	**8,837**	**9,636**	**15,021**	**46,700**	**135,919**

Year ended 31 December 2008

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Construction in progress	Water pipeline	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2007 as originally stated	519	32,857	926	1,953	–	–	36,255
Effect of changes in accounting policies	–	–	–	–	–	–	–
At 1 January 2007 as restated	519	32,857	926	1,953	–	–	36,255
Provided for the year	579	3,714	238	556	–	220	5,307
Eliminated on disposal of subsidiaries	(595)	(37,659)	(244)	(1,910)	–	–	(40,408)
Eliminated on deconsolidation of a subsidiary	–	(13)	–	–	–	–	(13)
Eliminated on disposals	–	(234)	(201)	(277)	–	–	(712)
Exchange realignment	19	1,502	2	45	–	521	2,089
At 31 December 2007	522	167	721	367	–	741	2,518
Provided for the year	1,343	171	669	1,060	–	987	4,230
Eliminated on disposals	(324)	(103)	–	(453)	–	–	(880)
Exchange realignment	17	17	5	19	–	46	104
At 31 December 2008	**1,558**	**252**	**1,395**	**993**	**–**	**1,774**	**5,972**
CARRYING VALUES							
At 31 December 2008	**52,118**	**1,797**	**7,442**	**8,643**	**15,021**	**44,926**	**129,947**
At 31 December 2007	13,912	850	3,765	4,321	10,464	21,540	54,852

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	5 to 10 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 to 10 years
Motor vehicles	5 years
Water pipeline	15 years to 25 years

The buildings are situated in the PRC and are situated on land under medium-term land use rights.

17. PREPAID LEASE PAYMENTS

	2008 HK$'000	2007 HK$'000
COST		
At 1 January	**10,501**	–
Acquisition of subsidiaries/business	**51,032**	9,810
Addition	**17,034**	–
Exchange realignment	**987**	691
At 31 December	**79,554**	10,501
ACCUMULATED AMORTISATION		
At 1 January	**137**	–
Provided for the year	**1,164**	132
Exchange realignment	**16**	5
At 31 December	**1,317**	137
CARRYING VALUES		
At 31 December	**78,237**	10,364

The Group's prepaid lease payments in relation to land use rights are under medium-term leases in the PRC, and analysed for reporting purposes as:

	2008 HK$'000	2007 HK$'000
Current assets	**1,794**	221
Non-current assets	**76,443**	10,143
	78,237	10,364

At 31 December 2008, legal title to land use rights with carrying values of HK$47,958,000 (2007: Nil) has not been granted by the relevant government authorities. The Group is in process to obtain the land use rights certificate and in the opinion of the directors of the company, the formal title of the land use rights will be granted to the Group in due course.

18. INTANGIBLE ASSETS

	Development costs	Water supply and sewage treatment service concession rights	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2007 as originally stated	3,600	–	3,600
Effect of changes in accounting policies	–	16,928	16,928
At 1 January 2007 as restated	3,600	16,928	20,528
Disposal of subsidiaries	(3,600)	–	(3,600)
Additions	–	96,557	96,557
Acquired on acquisition of subsidiaries	–	73,434	73,434
Exchange realignment	–	7,911	7,911
At 31 December 2007	–	194,830	194,830
Acquired on acquisition of subsidiaries/business	–	325,353	325,353
Additions	–	94,531	94,531
Exchange realignment	–	14,453	14,453
At 31 December 2008	**–**	**629,167**	**629,167**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2007 as originally stated	3,600	–	3,600
Effect of changes in accounting policies	–	–	–
At 1 January 2007 as restated	3,600	–	3,600
Eliminated on disposal of subsidiaries	(3,600)	–	(3,600)
Provided for the year	–	3,476	3,476
At 31 December 2007	–	3,476	3,476
Provided for the year	–	16,625	16,625
Exchange realignment	–	340	340
At 31 December 2008	**–**	**20,441**	**20,441**
CARRYING VALUES			
At 31 December 2008	**–**	**608,726**	**608,726**
At 31 December 2007	–	191,354	191,354

18. INTANGIBLE ASSETS *(Continued)*

Development costs have definite useful lives and were originally amortised on a straight-line basis over 5 years.

Water supply and sewage treatment service concession rights have definite useful lives and were amortised on a straight-line basis over a period ranging from 25 to 30 years.

19. GOODWILL

	2008	2007
	HK$'000	*HK$'000*
COST		
At 1 January	**77,333**	1,361
Adjustments to cost of investment due to contingent transaction costs crystalised for the acquisition of subsidiaries in prior years	**–**	1,582
Arising on acquiring additional equity interest in an associate	**–**	26,830
Arising on acquisition of subsidiaries	**317,650**	47,560
Release in a partial disposal of a subsidiary	**(3,799)**	–
	391,184	77,333
IMPAIRMENT		
At 1 January	**–**	–
Impairment loss recognised in the year	**7,837**	–
At 31 December	**7,837**	–
CARRYING VALUES		
At 31 December	**383,347**	77,333

The goodwill was recognised on acquisitions of subsidiaries, which are engaged in the water supply and sewage treatment business and investment in financial and investment products. For the purposes of impairment testing, goodwill has been allocated to the cash generating units of provision for water supply and sewage treatment and investment in financial and products ("CGUs") approximately HK$326,356,000 (2007: HK$77,333,000) and HK$56,991,000 (2007: Nil) respectively.

19. GOODWILL *(Continued)*

During the year ended 31 December 2008, the Group recognised impairment losses of approximately HK$7,837,000 in relation to the goodwill arising from the acquisition of Longwide Investment Limited which are all allocated to the CGU of provision of water supply and sewage treatment.

Water supply and sewage treatment

The recoverable amounts for the this unit was determined based on value in use calculations, covering a five-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 3% (2007: 5%) and discount rate of 12.14% (2007: 8%) estimated by the management with reference to the valuation performed by Asset Appraisal Limited, a qualified valuer not connected with the Group.

Investment in financial and investment products

The recoverable amount of this CGU has been determined on the basis of value in use calculation. That calculation uses cash flow projections based on financial budges approved by management covering a 5 year periods (the "Forecast"), and discount rate of 12.14%. Cash flows beyond the 5 year periods have been extrapolated using a steady 3% growth rate. The management determined the budgeted growth rate based on past performance and its expectation on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. The directors of the Company are of the opinion, based on the Forecast and with reference to the valuation performed by Asset Appraisal Limited, that the recoverable amount of this CGU exceeds it carrying amount in the consolidated balance sheet and no impairment loss of goodwill is necessary.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	HK$'000	*HK$'000*
Available-for-sale investments comprise:		
Listed investments		
– Equity securities listed in Hong Kong	**59,519**	–

The fair values of the above listed securities are determined based on the quoted market bid prices available on the relevant exchanges.

21. INTEREST IN AN ASSOCIATE

	2008 *HK$'000*	2007 *HK$'000*
Investments in unlisted equity interests, at cost	**52,794**	10,200
Share of post-acquisition results and reserves	**2,989**	(2,583)
	55,783	7,617

As at 31 December 2008, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of incorporation	Proportion of nominal value of issued capital held by the Group	Principal activity
Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") (濟南泓泉制水有限公司)	Incorporated	PRC	35%	Provision of water supply

Jinan Hongquan was acquired by the Group through the acquisition of Blue Mountain Hong Kong Group Limited ("Blue Mountain") on 18 January 2008. The results of which have been accounted for into the Group's consolidated financial statements by equity accounting method, and are derived from the unaudited financial statements of Jinan Hongquan from 18 January 2008 to 31 December 2008.

During the year, the Group's share of profit of this associate recognised in consolidated income statement amounted to approximately HK$800,000 (2007: Nil).

As at 31 December 2007, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of establishment	Proportion of equity interests held by the Group	Principal activity
Shangqiu Zhengyuan Water Industry Company Limited* ("Shangqiu Zhengyuan") (商丘市正源水務有限公司)	Incorporated	PRC	29.15%	Provision of water supply

21. INTEREST IN AN ASSOCIATE *(Continued)*

Shangqiu Zhengyuan was acquired by the Group on 3 July 2007. The results of which have been accounted for into the Group's consolidated financial statement by equity accounting method, and are derived from the unaudited financial statements of Shangqiu Zhengyuan from 3 July 2007 to 31 December 2007 and from 1 January 2008 to 22 April 2008 (the date on which Shangqiu Zhengyuan became a subsidiary of the Group).

During the year, the Group's share of loss of this associate recognised in consolidated income statement amounted to approximately HK$4,065,000 (2007: HK$2,583,000).

The summarised unaudited financial information in respect of the Group's associates as at the balance sheet date is set out below:

	2008	2007
	HK$'000	*HK$'000*
Total assets	**369,371**	266,630
Total liabilities	**(209,992)**	(240,500)
Net assets	**159,379**	26,130
Group's share of net assets of associates	**55,783**	7,617
Revenue	**245,178**	10,161
Loss for the year	**(11,941)**	(8,860)
Group's share of results of associates for the year	**(3,265)**	(1,834)

22. DEPOSITS PAID FOR ACQUISITION OF SUBSIDIARIES

On 6 November 2007, Super Sino Investment Limited ("Super Sino"), an indirectly wholly-owned subsidiary of the Company entered into a share transfer agreement with an independent third party, Hainan Nanshenghe Company Limited* (海南南聖河實業有限公司) purchase 51% equity interest in and the shareholder's loan due by Danzhou Lian Shun Tong Water Pipe Company Limited* ("Danzhou Water Pipe") (儋州聯順通自來水管網有限公司) for a consideration of approximately HK$11,860,000. Details of the transaction had been set out in the Company's circular dated 29 November 2007. The transaction had been completed on 13 November 2008. As of 31 December 2007, the Group had paid approximately HK$6,787,000 as deposit for such acquisition.

On 6 November 2007, Super Sino entered into a net asset transfer agreement with the People's Government of Danzhou City, Hainan Province to purchase 49% equity interest in Danzhou Water Pipe and the entire assets and liabilities, the water supply business and the respective operating rights and a shareholder's loan of Danzhou City Water Company* ("Danzhou City Water") (儋州市自來水公司) for a consideration of approximately HK$27,737,000. Details of the transaction had been set out in the Company's circular dated 29 November 2007. The transaction had been completed on 31 March 2008. As of 31 December 2007, the Group had paid approximately HK$20,000,000 as deposit for the acquisition.

On 26 November 2007, Smart Giant Group Limited, a direct wholly-owned subsidiary of the Company entered into an agreement to acquire the entire share capital and a shareholder's loan of Blue Mountain for an aggregate consideration of HK$246,690,000. Blue Mountain is an investment holding company of which its major asset is the 35% equity interests in an associate, Jinan Hongquan which was engaged in the provision of water supply business in the PRC. As of 31 December 2007, the Group had paid approximately HK$230,000,000 as deposit and approximately HK$16,361,000 as direct expenses for the acquisition. The transaction had been completed on 18 January 2008. Details of the transaction had been set out in the Company's circular dated 20 December 2007.

On 1 December 2007, Bonus Raider Investments Limited ("Bonus Raider"), a direct wholly-owned subsidiary of the Company entered into an agreement to acquire approximately 67.32% equity interests in iMerchants Limited ("iMerchants") at an aggregate consideration of approximately HK$200,602,000. iMerchants is a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange. The Group had paid approximately HK$198,000,000 as deposit and approximately HK$542,000 as direct expenses for the acquisition and approximately HK$96,300,000 as deposit for the mandatory cash offer in accordance with Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the acquisition. The transaction had been completed on 14 February 2008. Details of the transaction had been set out in the Company's circular dated 25 January 2008.

23. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**98**	–
Finished goods	**12,784**	4,116
	12,882	4,116

24. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**21,341**	10,114
Less: Impairment loss recognised	**(4,754)**	(2,093)
	16,587	8,021
Other receivables	**93,035**	16,996
Less: Impairment loss recognised	**(6,931)**	(1,084)
Deposits and prepayments	**3,219**	34,581
	105,910	58,514

As at 31 December 2008, included in other receivables are amount due from Construction Bureau of Yingtan City ("鷹潭市建設局") amounting to approximately HK$22,901,000 (equivalent to RMB20,000,000) (2007: Nil) which are unsecured, repayable on demand and carried interest at 12% per annum and approximately HK$20,401,000 (2007: Nil) refundable deposit paid for potential investment projects.

The Group allows an average credit period of 90 days to 180 days given to its customers.

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

	2008	2007
	HK$'000	*HK$'000*
Within 90 days	**10,760**	3,564
91 to 180 days	**5,192**	4,046
181 to 365 days	**511**	344
Over 1 year	**124**	67
	16,587	8,021

At 31 December 2008 and 2007, an analysis of trade receivables that were past due but not impaired are as follows:

		Neither past	Past due but not impaired			
	Total	due nor impaired	< 90 days	91-180 days	181-365 days	>1 year
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008	16,587	13,939	1,115	924	485	124
2007	8,021	5,986	764	860	344	67

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

The movements in impairment loss of trade receivables were as follows:

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	**2,093**	21,135
Recognised during the year	**2,526**	4,324
Eliminated on disposal of subsidiaries	**–**	(23,366)
Arising on acquisition of subsidiaries	**10**	–
Exchange realignment	**125**	–
Balance at end of the year	**4,754**	2,093

The movements in impairment loss of other receivables were as follows:

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	**1,084**	–
Recognised during the year	**5,785**	1,084
Exchange realignment	**62**	–
Balance at end of the year	**6,931**	1,084

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$6,931,000 (2007: HK$1,084,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

25. AMOUNT DUE FROM A RELATED PARTY

Particular of the amount due from a related party, pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance as at 31 December 2008	Balance as at 31 December 2007	Maximum amount outstanding during the year ended 31 December 2007 and 2008
	HK$'000	*HK$'000*	*HK$'000*
Mr. Su Li Xiang ("Mr. Su")	–	213	213

The amount due from a related party was unsecured, interest-free and was fully settled during the year ended 31 December 2008. Mr. Su is a director of a subsidiary of the Company.

26. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due from a minority shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

27. CASH HELD AT FINANCIAL INSTITUTIONS/BANK BALANCES AND CASH

Cash held at financial institutions represents amounts of HK$13,170,000 (2007: HK$30,000,000) deposited in financial institutions in Hong Kong carry daily interest rate ranging from 0.0007% to 0.018% (2007: 0.0068%).

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

28. TRADE AND OTHER PAYABLES

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**3,110**	1,489
31 to 90 days	**1,232**	585
91 to 180 days	**1,946**	741
181 to 365 days	**1,050**	1,559
Over 1 year	**21,912**	868
	29,250	5,242
Other payables	**179,965**	24,528
	209,215	29,770

29. BANK BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Bank borrowings:		
On demand or within one year	**32,716**	–
More than one year but not exceeding two years	**3,385**	3,202
More than two years but not exceeding five years	**10,153**	9,605
More than five years	**13,538**	19,210
	59,792	32,017
Less: Amount due within one year shown under current liabilities	**(32,716)**	–
Amount due after one year	**27,076**	32,017

As at 31 December 2008, included in bank borrowings of approximately HK$30,460,000 (equivalent to RMB27,000,000) (2007: HK$32,017,000) which carries interest at base rate published by the Peoples' Bank of China plus 10% per annum and secured by a pledge over the subsidiary's revenue from the provision of sewage treatment.

During the year ended 31 December 2008, in respect of bank borrowings with carrying amounts of approximately HK$29,332,000 (equivalent to RMB26,000,000) (2007: Nil) borrowed from Agricultural Bank of China, Danzhou Branch, are overdue as at 31 December 2008 and are classified as current liabilities. The bank borrowings are secured fixed-rate borrowings which carry interest ranging from 10.980% to 13.176% per annum. Pursuant to the respective loan agreements, the Group is subject to additional interests for the overdue amounts which are calculated based on the overdue interest rate published by the People's Bank of China. During the year ended 31 December 2008, Agricultural Bank of China, Danzhou Branch had filed a claim against the Group for the repayment of the bank borrowings. Details are set out in Note 50.

30. OTHER LOANS

	2008	2007
	HK$'000	*HK$'000*
Other loans comprises of:		
Government loans	**70,389**	10,425
Other loans	**17,946**	–
	88,335	10,425
Analysis as:		
Secured	**5,802**	–
Unsecured	**82,533**	10,425
	88,335	10,425
Other loans are repayable as follows:		
On demand or within one year	**42,395**	9,487
More than one year but not exceeding two years	**6,461**	–
More than two years but not exceeding five years	**24,825**	–
More than five years	**14,654**	938
	88,335	10,425
Less: Amount due within one year shown under current liabilities	**(42,395)**	(9,487)
Amount due after one year	**45,940**	938

As at 31 December 2008, Government loans of approximately HK$59,181,000 (2007: HK$8,373,000), HK$10,029,000 (2007: HK$938,000) and HK$1,179,000 (2007: HK$1,114,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 2.28% to 5% (2007: 5%) per annum and the floating-rate borrowings carry interest at the fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum for the two years ended 31 December 2008.

At 31 December 2008, other loans of approximately HK$17,946,000 (2007: Nil) are fixed-rate borrowings carry interest ranging from 6.048% to 21.97% per annum.

At 31 December 2008, in respect of other loans with carrying amounts of approximately HK$5,802,000 (equivalent to RMB5,143,000) (2007: Nil) and interest payable of approximately HK$11,039,000 (2007: Nil) are overdue as at 31 December 2008 and are classified as current liabilities. Up to the date of the issue of the consolidated financial statements, the negotiations are still in progress. The directors of the Company are confident that their negotiations with the lenders will ultimately reach a successful conclusion. In any event, should the lenders call for immediate repayment of the loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

31. AMOUNTS DUE TO RELATED PARTIES/DIRECTORS

The amounts were unsecured, interest-free and were fully settled during the year ended 31 December 2008.

32. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

	2008	2007
	HK$'000	*HK$'000*
Carrying amounts analysed as follows:		
Within one year	**105,802**	–
More than one year but not exceeding two years	**10,051**	–
More than two years but not exceeding five years	**25,640**	–
More than five years	**45,736**	–
	187,229	–
Less: Amount due within one year shown under current liabilities	**(105,802)**	–
	81,427	–

The amounts are unsecured, other than an amount of approximately HK$2,256,000 included in amounts due within one year carries interest at 14.88% per annum, the remaining amounts are interest-fee.

33. SHARE CAPITAL

	2008		2007	
	Number of shares	**Amount**	Number of shares	Amount
		HK$'000		*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At the beginning and the end of the year	**4,000,000,000**	**400,000**	4,000,000,000	400,000
Issued and fully paid:				
At the beginning of the year	**1,890,900,000**	**189,090**	1,164,500,000	116,450
Issue of shares *(Notes b & c)*	**–**	**–**	530,000,000	53,000
Exercise of share options *(Note d)*	**–**	**–**	196,400,000	19,640
At the end of the year	**1,890,900,000**	**189,090**	1,890,900,000	189,090

33. SHARE CAPITAL *(Continued)*

Notes:

(a) There was no movement in the Company's share capital during the year ended 31 December 2008.

(b) On 31 January 2007, the Company entered into a placing and subscription agreement to place up to 230,000,000 shares of the Company at the price of HK$0.49 per share. On 2 February 2007, a total of 230,000,000 shares were issued under such placement arrangement.

(c) On 23 March 2007, the Company entered into a placing agreement to place up to 300,000,000 new shares of the Company at the price of HK$1.06 per share. On 29 March 2007, a total of 300,000,000 shares were issued under such placement arrangement.

(d) During the year ended 31 December 2007, 196,400,000 share options were exercised. Details of which has been set out in Note 46.

All new shares issued during the year ended 31 December 2007 ranked pari passu in all respects with other shares in issue.

34. LOANS FROM AN ASSOCIATE/A MINORITY SHAREHOLDER OF SUBSIDIARIES

The amounts represent loans advance from Jinan Hongquan who was a minority shareholder of the subsidiaries of the Group as at 31 December 2007. During the year ended 31 December 2008, Jinan Hongquan became an associate of the Group. The loans are interest bearing at 6.12% (2007: 6.12%) per annum and repayable in five years. As at 31 December 2008, other than a loan amounting to approximately HK$3,384,000 (2007: HK$3,202,000) which is secured by a charge over one of the subsidiary's revenue from the provision of sewage treatment, the remaining amounts are unsecured.

35. CONVERTIBLE BONDS

On 3 August 2007, the Company issued convertible bonds in aggregate principal amounts of HK$385 million. The convertible bonds bear interest at the rate of 0.25% per annum, starting from 3 August 2007, payable semi-annually in arrear on 3 February and 3 August each year. The convertible bonds may be converted at the option of the convertible bonds holder at a conversion price of HK$1.42 per ordinary share at any time on or after 13 September 2007 and up to 27 July 2012.

Since the conversion price for the bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. Therefore, upon application of HKAS 32 and HKAS 39, it was determined that the bonds do not contain any equity component and the entire bonds were designated as "financial liabilities at fair value through profit or loss" which requires that bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognised in the consolidated income statement. During the year ended 31 December 2008, a gain on change in its fair value of approximately HK$64,537,000 (2007: HK$58,128,000) is recognised in the consolidated income statement.

The Company incurred one-off expenses of approximately HK$13,520,000 (2008: Nil) for the issuance of the bonds for the year ended 31 December 2007. Such expenses had been recognised in the consolidated income statement for the year ended 31 December 2007.

The convertible bonds were valued at fair value by the directors of the Company with reference to a valuation report carried out by Asset Appraisal Limited, a qualified valuer not connected with the Group, at approximately HK$262,335,000 (2007: HK$326,872,000).

35. CONVERTIBLE BONDS *(Continued)*

The fair value of the bonds at each of the balance sheet date was calculated using the market value basis.

Major parameters adopted in the calculation of the fair value are summarised below:

	2008	2007
Stock price	**HK$0.098**	HK$0.50
Exercise price	**Subject to adjustment but not less than 80% of HK$1.42**	Subject to adjustment but not less than 80% of HK$1.42
Expected volatility	**58.16%**	45.94%
Risk-free rate	**0.920%**	3.0165%
Option life	**3.592 years**	4.592 years

36. GOVERNMENT GRANTS

Yichun Water Industry Co., Ltd. ("Yichun Water"), a subsidiary of the Company, has been granted by the local government of the PRC an aggregate amount of approximately HK$55,763,000 (equivalent to RMB47,586,000) (2007: HK$50,787,000) for the expansion and construction of water plants and pipelines. As at 31 December 2008 and 2007, the construction of water plants and pipelines was in progress.

37. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profit	**Service concession arrangement**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2007	–	–	–
Charge to consolidated income statement for the year	–	1,414	1,414
At 31 December 2007 (Restated)	–	1,414	1,414
Charge to consolidated income statement for the year	1,321	1,629	2,950
At December 2008	**1,321**	**3,043**	**4,364**

At 31 December 2008, the Group had unused tax losses of HK$84,069,000 (2007: Nil) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

37. DEFERRED TAX LIABILITIES *(Continued)*

At 31 December 2008, the Group also has other deductible temporary differences of approximately HK$11,685,000 (2007: HK$3,177,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

According to the New Law as mentioned in Note 12, starting from 1 January 2008, 10% withholding income tax will be imposed on dividends relating to profits earned by the companies established in the PRC in calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interests of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$26,430,000. The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong. No deferred tax liability has been provided for the remaining of such profits of approximately HK$2,667,000 as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes various type of borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 December 2008.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
– Loans and receivables		
(including cash and cash equivalents)	**252,078**	167,572
– Available-for-sale investments	**59,519**	–
Financial liabilities		
– At amortised cost	**547,955**	84,377
– At fair value through profit and loss	**262,335**	326,872

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

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party and a minority shareholder of a subsidiary, cash held at financial institutions, bank balances and cash, trade and other payables, amounts due to related parties and directors, loan from an associate/a minority shareholder of subsidiaries, bank borrowings, other loans, amounts due to minority shareholders of subsidiaries and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has transactional currency exposure. Certain investments and bank balances of the Group are denominated in foreign currencies. The Group expose to currency risk is minimal. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

In the opinion of the directors of the Company, since the currency risk is minimal, no sensitivity analysis to be presented.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, other loans, loans from an associate/a minority shareholder of subsidiaries and amounts due to minority shareholders of subsidiaries (see notes 29, 30, 32 and 34 for details) for the years ended 31 December 2008 and 2007. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group was exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and other loans (see notes 29 and 30 for details) for the years ended 31 December 2008 and 2007. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group was also exposed to cash flow interest rate risk relates to bank balances and cash held at financial institutions carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balance and cash held at financial institutions are all short-term in nature.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the fixed deposit rate as stipulated by the People's Bank of China arising from the Group's RMB borrowings.

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

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings and other loans, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease/increase by approximately HK$196,000 (2007: HK$195,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and other loans.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The managements manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, the investment revaluation reserve would increase/decrease by HK$2,976,000 (2007: Nil) for the Group as a result of the changes in fair value of available-for-sale investments.

The Group is also required to estimate the fair value of the conversion option component of the convertible note at each balance sheet date which therefore exposed the Group to equity security price risk.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting dates.

If the estimated issued price inputted to the valuation model had been 5% higher/lower while all other variables were held constant, the profit for the year ended 31 December 2008 and 2007 would decrease/increase by approximately HK$24,000 and HK$102,000 for the Group, principally as a result of the changes in fair value of the convertible note.

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

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as end of the financial year in relation to each class of recognised financial assets in the carrying amount of those assets as stated in the consolidated balance sheet.

The Group has no significant credit risks as it has policies in place to ensure that sales of products and services are made to customers with appropriate credit history. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining substantial collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities with good repayment history.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit-rating agencies.

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

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2008 as its financial assets due within one year was less than its financial liabilities due within one year. The Group had net current liabilities of approximately HK$122,535,000 as at 31 December 2008.

The Group has planned to implement several measures to improve its working capital position and net financial position. Details of which are set out in Note 2.

The following table details the Group's remaining contractual maturities for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	More than five years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amounts *HK$'000*
2008						
Non-derivatives financial liabilities						
Trade and other payables	**209,215**	**–**	**–**	**–**	**209,215**	**209,215**
Bank borrowings and other loans	**74,171**	**12,649**	**40,537**	**31,073**	**158,430**	**148,127**
Amounts due to minority shareholders of subsidiaries	**105,802**	**10,051**	**25,640**	**45,736**	**187,229**	**187,229**
Loans from an associate	**–**	**–**	**3,384**	**–**	**3,384**	**3,384**
	389,188	**22,700**	**69,561**	**76,809**	**558,258**	**547,955**

	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	More than five years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amounts *HK$'000*
2007						
Non-derivatives financial liabilities						
Trade and other payables	29,770	–	–	–	29,770	29,770
Bank borrowings and other loans	15,667	5,456	14,865	20,966	56,954	42,442
Amounts due to related parties	204	–	–	–	204	204
Amounts due to directors	223	–	–	–	223	223
Loans from a minority shareholder of subsidiaries	–	5,662	7,187	–	12,849	11,738
	45,864	11,118	22,052	20,966	100,000	84,377

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

(c) Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments; and

- the fair value of derivative instruments is calculated using quoted prices.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The directors of the Company also consider that the fair value of the long-term portion of liabilities approximates to their carrying amount as the impact of discounting is not significant.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS

(a) As referred in Note 22, on 14 February 2008, the Group acquired 67.32% of the issued share capital of iMerchants at a consideration of approximately HK$200,602,000. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of acquisition was approximately HK$45,614,000.

The fair value of net assets acquired in the transaction approximate to their carrying amounts and the goodwill arising are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	771
Interest in an associate	4,000
Trade and other receivables	2,138
Financial assets at fair value through profit or loss	16,554
Available-for-sale investments	18,535
Held-for-trading investments	64,701
Convertible notes receivables	2,672
Cash held at financial institutions	62,077
Bank balances and cash	60,026
Other payables	(1,249)
Minority interests	(75,237)
	154,988
Goodwill	45,614
Total consideration	200,602
Satisfied by:	
Cash	21
Deposits paid for acquisition of subsidiaries *(Note 22)*	198,000
Direct costs relating to the acquisition	2,581
	200,602
Net cash inflow arising on acquisition:	
Cash consideration paid	(21)
Bank balances and cash acquired	60,026
Cash held at financial institutions acquired	62,077
Direct costs relating to the acquisition	(2,581)
Less: Prepaid direct cost *(Note 22)*	542
	120,043

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(a) *(Continued)*

iMerchants contributed approximately HK$4,906,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would have been increased by approximately HK$97,836,000 and profit for the year ended 31 December 2008 would have been increased by approximately HK$1,993,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

In accordance with Rule 26 of the Hong Kong Code on Takeovers and Mergers, the Group is required to make an unconditional mandatory general cash offer for all the issued shares of iMerchants other than those iMerchants's shares already owned by the Group and parties acting in concert with it (the "Share Offer").

At the close of the Share Offer on 13 March 2008, an additional 23.36% of the issued share capital of iMerchants was acquired through the Share Offer with a consideration of approximately HK$69,384,000, and a goodwill of approximately HK$15,176,000 was resulted. In respect of approximately HK$96,300,000 (Note 22) deposits paid for the Share Offer, approximately HK$26,916,000 deposits paid was refunded to the Group. Upon the close of the Share Offer, 9.32% of the issued share capital of iMerchants remains in public hands. To restore to the minimum 15% public float requirement under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, the Group entered into a placing agreement with Pacific Foundation Securities Limited to place out 6,450,000 ordinary shares of HK$1 each (representing 5.7% of issued share capital) of iMerchants to independent third parties at a consideration of approximately HK$16,770,000. Upon the completion of the placing on 14 April 2008, a goodwill of approximately HK$3,799,000 was released and a loss on the partial disposal of iMerchants amounting approximately HK$140,000 was resulted.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(b) As referred in Note 22, on 18 January 2008, the Group acquired the entire issued share capital of Blue Mountain and a shareholder's loan of approximately HK$47,730,000, at a total consideration of approximately HK$246,690,000. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of acquisition was approximately HK$193,890,000.

The fair value of net assets acquired in the transaction approximate to their carrying amounts and the goodwill arising are as follows:

	HK$'000
Net assets acquired:	
Interest in an associate	52,794
Bank balances and cash	6
Loan from a shareholder	(47,730)
	5,070
Shareholder's loan	47,730
Goodwill	193,890
Total consideration	246,690
Satisfied by:	
Deposits paid for acquisition of subsidiaries *(Note 22)*	230,000
Direct costs relating to the acquisition	16,690
	246,690
Net cash outflow arising on acquisition:	
Bank balances and cash acquired	6
Direct costs relating to the acquisition	(16,690)
Less: Prepaid direct cost *(Note 22)*	16,361
	(323)

Blue Mountain contributed approximately HK$800,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would remain unchanged and profit for the year ended 31 December 2008 would have been increased by approximately HK$800,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(c) On 31 March 2008, the Group acquired the entire assets and liabilities, the water supply business and the respective operating rights (the "Water Supply Business") and a shareholder's loan of approximately HK$27,706,000 of Danzhou City Water at a consideration of approximately HK$27,737,000. The amount of discount arising as a result of acquisition was approximately HK$12,443,000.

The fair value of assets and liabilities arising from the acquisition approximate to their carrying amounts are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	10,777
Intangible assets	127,364
Prepaid lease payments	14,526
Inventories	958
Trade and other receivables	2,138
Bank balances and cash	381
Trade and other payables	(72,519)
Other loans	(14,414)
Bank borrowings	(29,031)
Loan from a shareholder	(27,706)
	12,474
Shareholder's loan	27,706
Discount on acquisition	(12,443)
Total consideration	27,737
Satisfied by:	
Cash	7,500
Deposits paid for acquisition of subsidiaries *(Note 22)*	20,000
Direct costs relating to the acquisition	237
	27,737
Net cash outflow arising on acquisition:	
Cash consideration paid	(7,500)
Bank balances and cash acquired	381
Direct costs relating to the acquisition	(237)
	(7,356)

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(c) *(Continued)*

The Water Supply Business contributed approximately HK$5,628,000 loss to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would have been increased by approximately HK$14,259,000 and profit for the year ended 31 December 2008 would have been decreased by approximately HK$1,307,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(d) On 22 April 2008, the Group increased its investment costs of HK$15,584,000 in an associate, Shangqiu Zhengyuan. After the capital injection, the Group's interests held in Shangqiu Zhengyuan increased from 29.15% to 51%, also the Group controlled the financial and operating policies of Shangqiu Zhengyuan and therefore classified as an acquisition of a subsidiary. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of acquisition was approximately HK$2,986,000.

The net assets arising in the transaction and the goodwill arising is as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	8,642
Intangible assets	197,989
Prepaid lease payments	33,751
Inventories	2,198
Trade and other receivables	19,488
Bank balances and cash	16,380
Trade and other payables	(84,055)
Amount due to a minority shareholder	(162,726)
Minority interests	(15,517)
	16,150
Less: 29.15% equity interests acquired previously recognised as interest in an associate	(3,552)
	12,598
Goodwill	2,986
Total consideration	15,584
Satisfied by:	
Cash	15,584
Net cash inflow arising on acquisition:	
Cash consideration paid	(15,584)
Bank balances and cash acquired	16,380
	796

Shangqiu Zhengyuan contributed approximately HK$13,952,000 loss to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would have been increased by approximately HK$22,734,000 and profit for the year ended 31 December 2008 would have been decreased by approximately HK$4,493,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(e) On 12 August 2008, the Group acquired the entire issued share capital of Plenty One Limited at a consideration of HK$55,000,000. Plenty One Limited was an investment holding company and its principal assets was an investment in a 80% held subsidiary, Ping Xiang City San He Lian Chuang Water Technology Company Limited* ("Ping Xiang San He") (萍鄉市三和聯創水務科技有限公司) which was established in the PRC and principally engaged in manufacture of bio-hang membrane filtering materials and filters, sale of water treatment equipment and material. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of acquisition was approximately HK$49,569,000.

The fair value of net assets acquired in the transaction approximate to their carrying amounts and the goodwill arising are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	3,890
Prepaid lease payments	2,755
Inventories	573
Trade and other receivables	1,219
Bank balances and cash	5,551
Cash held at financial institutions	36
Trade and other payables	(1,637)
Amount due to a minority shareholder	(3,977)
Other loans	(2,003)
Minority interests	(976)
	5,431
Goodwill	49,569
Total consideration	55,000
Satisfied by:	
Cash	55,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(55,000)
Bank balances and cash acquired	5,551
Cash held at financial institution	36
	(49,413)

Ping Xiang San He contributed approximately HK$323,000 loss to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would have been increased by approximately HK$5,343,000 and profit for the year ended 31 December 2008 would have been decreased by approximately HK$103,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(f) As refer in Note 22, on 13 November 2008, the Group acquired an additional 51% equity interests in an existing 49% held associate, Danzhou Water Pipe (儋州聯順通自來水管網有限公司) and a shareholder's loan of approximately HK$3,507,000 for a consideration of approximately HK$11,860,000. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of acquisition was approximately HK$10,415,000.

The fair value of net assets acquired in the transaction approximate to their carrying amounts and the goodwill arising are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	35,561
Trade and other receivables	2,834
Bank balances and cash	414
Trade and other payables	(3,331)
Other loans	(34,033)
Loan from a shareholder	(3,507)
	(2,062)
Shareholder's loan	3,507
Goodwill	10,415
Total consideration	11,860
Satisfied by:	
Cash	5,073
Deposit paid for acquisition of subsidiaries *(Note 22)*	6,787
	11,860
Net cash outflow arising on acquisition:	
Cash consideration paid	(5,073)
Bank balances and cash acquired	414
	(4,659)

Danzhou Water Pipe contributed approximately HK$461,000 loss to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would remain unchanged and profit for the year ended 31 December 2008 would have been decreased by approximately HK$2,281,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(g) On 14 May 2007, the Group acquired an additional 60% equity interests in Onfar International Limited. Accordingly, the Group's shareholding in Onfar International Limited increased from 40% to 100% and Onfar International Limited became a wholly-owned subsidiary of the Group thereafter. Onfar Group contributed turnover of approximately HK$10,252,000 and profit of approximately HK$946,000 to the Group from the 14 May 2007 to 31 December 2007.

On 3 July 2007, the Group acquired 100% of the equity interests in Longwide Investment Limited ("Longwide"). The acquisition has been accounted for using the purchase method. Longwide and its subsidiaries ("Longwide Group") contributed turnover of approximately HK$10,161,000 and loss of approximately HK$2,583,000 to the Group from 3 July 2007 to 31 December 2007.

If the above acquisitions had been completed on 1 January 2007, total Group's turnover for the year from continuing operations would have been increased by approximately HK$54,320,000 and loss for the year ended 31 December 2008 would have been increased by approximately HK$67,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have achieved had the acquisitions been completed on 1 January 2007, nor is it intended to be a projection of future results.

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(g) *(Continued)*

The fair value of net assets acquired in the transaction approximate to their carrying amounts and the goodwill arising are as follows:

	2007		
	Onfar Group fair value *HK$'000* (restated)	Longwide Group fair value *HK$'000* (restated)	Total fair value *HK$'000* (restated)
Net assets acquired:			
Property, plant and equipment, net	7,796	13,816	21,612
Prepaid lease payment	9,810	–	9,810
Intangible assets	68,767	4,667	73,434
Interest in an associate	–	10,200	10,200
Inventories	6,248	–	6,248
Trade and other receivables	34,992	3,234	38,226
Bank balances and cash	49,694	4,055	53,749
Trade and other payables	(43,238)	(109)	(43,347)
Bank borrowings and other loans	(15,213)	(5,130)	(20,343)
Government grants	(50,786)	–	(50,786)
Minority interests	(38,098)	(10,055)	(48,153)
Net assets	29,972	20,678	50,650
Less: 40% equity interests acquired previously recognised as interest in an associate	(11,988)	–	(11,988)
Net assets acquired	17,984	20,678	38,662
Goodwill	14,621	32,939	47,560
	32,605	53,617	86,222
Satisfied by:			
Cash	30,000	53,455	83,455
Direct cost relating to the acquisition	2,605	162	2,767
	32,605	53,617	86,222

40. ACQUISITION OF SUBSIDIARIES/BUSINESS *(Continued)*

(g) *(Continued)*

An analysis of the net inflow (outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries are as follow:

	2007		
	Onfar Group *HK$'000*	Longwide Group *HK$'000*	Total fair value *HK$'000*
Cash consideration paid	(30,000)	(53,455)	(83,455)
Bank balances and cash acquired	49,694	4,055	53,749
Direct costs relating to the acquisition	(2,605)	(162)	(2,767)
Net inflow (outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	17,089	(49,562)	(32,473)

41. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2007, the Group disposed the following subsidiaries, the net liabilities of these subsidiaries at the date of disposals were as follows:

	All Favour Limited *HK$'000*	Pablo Group *HK$'000*	Faith Honest Enterprises Ltd. *HK$'000*	Total *HK$'000*
Net liabilities disposed of:				
Property, plant and equipment	–	15,638	–	15,638
Inventories	–	11,973	–	11,973
Trade and other receivables	–	20,430	–	20,430
Bank balances and cash	–	762	–	762
Trade and other payables	–	(31,913)	–	(31,913)
Tax payables	–	(9,852)	–	(9,852)
Bank borrowings	–	(6,442)	–	(6,442)
Amounts due to related parties	(23)	(7,514)	(756)	(8,293)
	(23)	(6,918)	(756)	(7,697)
Translation reserve realised on disposal of subsidiaries	–	677	–	677
Gain on disposals	23	6,241	756	7,020
Total consideration *(Note)*	–	–	–	–
Net cash outflow from disposal of subsidiaries	–	(762)	–	(762)

Note: The Group entered into the disposal agreement with an independent third party for the disposal of the entire issued share capital of Pablo for a consideration of HK$1. The impact of Pablo on the Group's results and cash flows in the current and prior periods was disclosed in Note 13.

42. LOSS ON DECONSOLIDATION OF A SUBSIDIARY UNDER A WINDING-UP COURT ORDER

The loss on deconsolidation of a subsidiary under a winding-up court order represented the loss arising on deconsolidation of Technostore Limited ("Technostore"), a subsidiary of the Company, upon the receipt of a winding-up order on Technostore from the High Court of Hong Kong on 7 November 2007. Before its winding-up, the net assets of Technostore at the date of deconsolidation were as follows:

	2007 *HK$'000*
Net assets of Technostore:	
Property, plant and equipment	18
Bank balances and cash	515
Trade and other payables	(255)
Amounts due to related parties	(180)
Loss on deconsolidation	98
Net cash outflow arising from deconsolidation of a subsidiary under winding-up court order	(515)

43. PLEDGED OF ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings and other loans of the Group (Notes 29 and 30):

	2008 ***HK$'000***	2007 *HK$'000*
Prepaid lease payments	**10,908**	–
Property, plant and equipment	**5,636**	–
Intangible assets	**19,575**	–
	36,119	–

44. CAPITAL COMMITMENT

	2008 ***HK$'000***	2007 *HK$'000*
Capital commitments contracted but not provided for, in respect of acquisition of intangible assets and property, plant and equipment	**5,388**	25,561

45. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

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

	2008	2007
	HK$'000	*HK$'000*
Within one year	**1,964**	1,045
In the second to fifth year, inclusive	**1,228**	70
	3,192	1,115

46. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

The Company's share option scheme (the "Scheme"), became effective on 17 January 2002 for the primary purpose of providing incentives to directors and eligible employees or persons and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2008 and 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000, representing 0.95% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million, within one year, must be approved in advance by the Company's shareholders.

Options granted must be taken up within twelve months of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

46. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme: *(Continued)*

The following table discloses movements of the Company's share options held by directors and other eligible persons during the year ended 31 December 2008:

	Outstanding at 1 January 2008	Granted during the year	Exercised during the year	Cancelled during the year	Transfer *(Note)*	Outstanding at 31 December 2008
Directors	18,000,000	–	–	–	(10,000,000)	8,000,000
Eligible persons	–	–	–	–	10,000,000	10,000,000
	18,000,000	–	–	–	–	18,000,000

Note: On 21 November 2008, Mr. Sze Chun Ning, Vincent ("Mr. Sze") has resigned as an executive director of the Company but remains as director of subsidiaries of the Company. In accordance with the adopted Share Option Scheme, Mr. Sze is still entitled to be granted share option benefit. To reflect appropriate category of participant, it was reclassified Mr. Sze from director to the category of eligible persons.

The following table disclosed movements of the Company's share options held by directors and other eligible persons during the year ended 31 December 2007:

	Outstanding at 1 January 2007	Granted during year	Exercised during year	Cancelled during year	Outstanding at 31 December 2007
Directors	–	28,200,000	(10,200,000)	–	18,000,000
Eligible persons	98,400,000	427,800,000	(186,200,000)	(340,000,000)	–
	98,400,000	456,000,000	(196,400,000)	(340,000,000)	18,000,000

During the year ended 31 December 2007, options were granted on 11 January 2007, 17 January 2007, 4 April 2007 and 28 June 2007 respectively.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options granted on			
	11 January 2007	**17 January 2007**	**4 April 2007**	**28 June 2007**
Grant date share price	HK\$0.31	HK\$0.42	HK\$1.03	HK\$1.14
Exercise price	HK\$0.34	HK\$0.42	HK\$1.078	HK\$1.14
Expected volatility	50.27%	50.42%	44.41%	40.29%
Option life	0.5 year	0.5 year	0.5 year	0.5 year
Risk-free rate	3.63%	3.69%	3.40% to 3.52%	3.84% to 3.96%
Expected dividend yield	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK\$40,433,000 for the year ended 31 December 2007 (2008: Nil) in relation to the fair value of the share options granted by the Company.

47. MAJOR NON CASH TRANSACTIONS

(a) During the year ended 31 December 2008, one of the subsidiaries' debtor was unable to settle the outstanding balance of HK$1,980,000 (equivalent to RMB1,755,000) due to the Group. After negotiation, agreement was signed in which property, plant and equipment with an aggregate amount of HK$1,980,000 (equivalent to RMB1,755,000) were transferred to the Group as the settlement of the outstanding balance.

(b) During the year ended 31 December 2008, the Company established a new subsidiary, Yingtan Water Supply Co., Ltd ("Yingtan Water") (鷹潭市供水有限公司) which the Company held 51% equity interests and the remaining 49% was contributed by injecting assets and liabilities with a net asset value amounting to approximately HK$31,796,000 (equivalent to RMB32,344,000) by the minority shareholder.

48. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in the CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the CPS.

49. SUBSEQUENT EVENTS

(a) As refer to Note 2, on 26 March 2009, the Group entered into a sale and purchase agreement with Bright Blue, an independent acquirer to dispose the Group's entire interest in Longwide Group and a shareholder loan amounted to approximately HK$57,000 at a consideration of HK$50,000,000. This transaction was completed on 2 April 2009.

(b) On 27 March 2009, Jining City Haiyuan Water Treatment Company Limited* ("Haiyuan") (濟寧市海源水務有限公司), an indirect non-wholly owned subsidiary of the Company, disposed all the assets and liabilities in a branch office of Liang Shan County, Jining City, the PRC to an independent acquirer, at a consideration of approximately HK$10,000,000. The Group recorded a gain of approximately HK$7,700,000 upon disposal of this branch office.

(c) On 27 April 2009, Swift Surplus Holdings Limited ("Swift Surplus") (迅盈控股有限公司), a directly wholly-owned subsidiary of the Company entered into an agreement with independent third parties, Top Vision Management Limited (達信管理有限公司) and Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司), pursuant to which Swift Surplus has conditionally agreed to acquire eight sewage treatment plants in Guangdong Province and one water supply plant in Hebei Province, at a consideration of HK$660 million.

50. CONTINGENT LIABILITIES

Super Sino Investment Limited ("Super Sino"), an indirectly wholly-owned subsidiary of the Company

On 6 November 2007, the People's Government of Danzhou City and Super Sino entered into a net asset transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water are transferred to Super Sino. On 26 June 2008, Super Sino was notified that Agricultural Bank of China, Danzhou Branch filed a claim regarding the liabilities transferred by Danzhou City Water with the Intermediate People's Court of Hainan against Danzhou City Water, Super Sino and the third party of the People's Government of Danzhou City for the repayment of the loan principal of approximately HK$29,332,000 (equivalent to RMB26,000,000) and the interests of approximately HK$43,459,000 arising from the defendants of Danzhou City Water and Super Sino to the plaintiff. As advised by the Company's solicitor, the borrowing contract lawsuit is under friendly out-of-court negotiation and is expected to reach a settlement agreement to reduce loan interests and extend the repayment period. This respective loan principal and interests were recorded in the Group's consolidated financial statements. The directors of the Company believed that the lawsuit is unlikely to have material adverse financial impact on the Group.

51. RELATED PARTY TRANSACTIONS

The balances and transactions with related parties at the balance sheet date are disclosed elsewhere in the consolidated financial statements.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008	2007
	HK$'000	*HK$'000*
Short-term benefits	**4,784**	2,947
Post-employment benefits	**54**	48
	4,838	2,995

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

52. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2008, are as follows:

Name of company	Place of incorporation/ operations	Particulars of issued and paid up share capital/ registered capital	Proportion of equity interest held Direct	Indirect	Principal activities
Billion City Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Super Sino Investment Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Anhui Dang Shan Water Industry Company Ltd *	PRC	Registered capital of RMB7,500,000	–	100%	Provision of water supply
Onfar International Limited	British Virgin Islands	100 ordinary share of US$1 each	–	100%	Investment holding
Yichun Water	PRC	Registered capital of RMB45,500,000	–	51%	Provision of water supply
Yichun Fangke Sewage Treatment Company Limited *	PRC	Registered capital of RMB20,000,000	–	51%	Sewage treatment
Yichun City Water Supply Engineering Limited *	PRC	Registered capital of RMB5,000,000	–	100%	Not yet commenced business
Danzhou Qingyuan Water Industry Company Limited* *(Note i)*	PRC	HK$30,000,000	–	100%	Provision of water supply
Danzhou Lian Shun Tong Water Pipe Company Limited* *(Note i)*	PRC	RMB1,000,000	–	100%	Provision of water pipe
Nourish Gain Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
China Ace Investment Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Jining City Haiyuan Water Treatment Company Limited *	PRC	Registered capital of RMB40,000,000	–	70%	Sewage treatment

52. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operations	Particulars of issued and paid up share capital/ registered capital	Proportion of equity interest held Direct	Indirect	Principal activities
China Water Industry (HK) Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Linyi Fenghuang Water Industry Co., Ltd	PRC	Registered capital of RMB30,000,000	–	60%	Provision of water supply
Longwide Investment Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Linyi Ganghua Water Industry Co., Ltd	PRC	Registered capital of RMB20,000,000	–	51%	Sewage treatment
Shangqiu Zhengyuan Water Industry Company Limited*	PRC	RMB50,000,000	–	51%	Provision of water supply
Yingtan Water Supply Co., Ltd *(Note ii)*	PRC	Registered capital of RMB66,008,000	–	51%	Provision of water supply
Smart Giant Group Limited	BVI	1 ordinary share of US$1 each	100%	–	Investment holding
Blue Mountain Hong Kong Group Limited *(Note i)*	Hong Kong	HK$1	–	100%	Investment holding
Bonus Raider Investments Limited	BVI	1 ordinary share of US$1 each	100%	–	Investment holding
iMerchants Limited *(Note i)*	Hong Kong	566,255,000 HK$0.5 shares	–	84.98%	Investment in financial and investment products and technology investment
iMerchants Asia Limited *(Note i)*	BVI	US$6,001,000	–	100%	Investment holdings, investments in financial and investment products and technology investment

52. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operations	Particulars of issued and paid up share capital/ registered capital	Proportion of equity interest held Direct	Proportion of equity interest held Indirect	Principal activities
iMerchants Consulting Limited *(Note i)*	Hong Kong	HK$1	–	100%	Inactive
iMerchants Services Limited *(Note i)*	BVI	US$1	–	100%	Inactive
Top Deluxe Limited *(Note i)*	Hong Kong	HK$1	–	100%	Inactive
Shine Gain Holdings Limited *(Note i)*	BVI	US$1	–	100%	Investment holding
Plenty One Ltd. (Note i)	PRC	US$100	–	100%	Investment holding
Ping Xiang City San He Lian Chuang Water Technology Company Limited *(Note i)*	PRC	RMB5,000,000	–	80%	Trading of ceramiste
Swift Surplus Holdings Limited	British Virgin Islands	100 ordinary share of US$1 each	100%	–	Investment holding
Happy Hour Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Mascot Industries Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Trading of watches
South Top Investment Limited	Hong Kong	1 ordinary share of HK$1 each	100%	–	Inactive

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

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

Notes:

(i) Acquired during the year ended 31 December 2008

(ii) Incorporated/established during the year 31 December 2008

* The English names are for identification purpose only.

53. BALANCE SHEET OF THE COMPANY

	2008 HK$'000	2007 HK$'000
Non-current assets		
Investments in subsidiaries	–	–
Current assets		
Trade and other receivables	5	32,228
Amounts due from subsidiaries *(Note)*	883,279	850,832
Bank balances and cash	530	785
	883,814	883,845
Current liabilities		
Trade and other payables	1,526	993
Amounts due to directors *(Note)*	–	223
Other loans	10,000	–
	11,526	1,216
Net current assets	872,288	882,629
Capital and reserves		
Share capital	189,090	189,090
Share premium	418,093	418,093
Share options reserve	727	727
Contributed surplus	118,611	118,611
Accumulated losses	(116,568)	(170,764)
	609,953	555,757
Non-current liability		
Convertible bonds	262,335	326,872
	872,288	882,629

Note: The amounts are unsecured, interest-free and repayable on demand.

* *for identification purpose only*

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000 (restated)	**2008 HK$'000**
Results					
Turnover	82,840	61,220	70,134	124,363	**289,875**
Finance costs	(198)	(262)	(494)	(2,612)	**(10,280)**
(Loss) profit before tax	(18,807)	(42,541)	(95,406)	(6,909)	**65,746**
Income tax expense	406	(1,718)	(336)	(1,414)	**(6,937)**
(Loss) profit for the year attributable to equity holders of the Company (including discontinued operations)	(18,401)	(44,259)	(95,452)	(11,431)	**58,809**
Discontinued operations					
(Loss) profit for the year from discontinued operations	–	–	(70,154)	(3,108)	**–**
Assets and liabilities					
Property, plant & equipment	32,576	20,991	64,628	54,852	**129,947**
Intangible assets	2,825	2,160	–	191,354	**608,726**
Prepaid lease payments	–	–	–	10,143	**76,443**
Goodwill	–	–	1,361	77,333	**383,347**
Interest in an associate	–	–	36,477	7,617	**55,783**
Deposits paid for acquisition of subsidiaries	–	–	–	567,990	**–**
Deferred tax assets	1,718	–	–	–	**–**
Net current assets (liabilities)	56,801	54,861	(43,573)	132,884	**(122,535)**
Assets classified as held for sale	–	1,081	–	–	**–**
	93,920	79,093	58,893	1,042,173	**1,191,230**
Share capital	49,500	73,450	116,450	189,090	**189,090**
Reserves	44,420	3,149	(64,722)	342,781	**326,989**
Minority interests	–	1,960	6,063	86,536	**194,862**
Bank borrowing due after one year	–	534	245	32,017	**27,076**
Other loans – due after one year	–	–	857	938	**45,940**
Loans from a minority shareholder	–	–	–	11,738	**3,384**
Amount due to minority shareholder of subsidiaries	–	–	–	–	**81,427**
Convertible bonds	–	–	–	326,872	**262,335**
Government grants	–	–	–	50,787	**55,763**
Deferred tax liabilities	–	–	–	1,414	**4,364**
	93,920	79,093	58,893	1,042,173	**1,191,230**
Earnings (loss) per share					
Basic	(3.8 cents)	(7.7 cents)	(9.6 cents)	(1.26 cents)	**2.32 cents**
Diluted	N/A	N/A	N/A	(4.17 cents)	**(0.91 cents)**