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 2009

*for identification purpose only

Contents

China Water Industry Group Limited
Annual Report 2009

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yu Gui *(Chairman)*
Mr. Yang Bin *(Chief Executive Officer)*
Mr. Liu Bai Yue *(Chief Operating Officer)*
Ms. Chu Yin Yin, Georgiana
Mr. Li Wen Jun (Appointed on 3 June 2009)
Mr. Liu Peng Cheng *(Deputy Chairman)* (Resigned on 31 May 2009)
Mr. Zhong Wen Sheng *(Managing Director)* (Resigned on 4 January 2010)
Mr. Shi De Mao (Resigned on 31 May 2009)

Non-Executive Directors

Mr. Huang Yuan Wen (Resigned on 10 June 2009)
Mr. Pan Shi Ying (Resigned on 10 June 2009)

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 (Resigned on 4 January 2010)
Mr. Li Wen Jun (Appointed on 4 January 2010)

INVESTMENT COMMITTEE

Mr. Li Yu Gui *(Chairman)*
Mr. Liu Bai Yue
Mr. Yang Bin
Mr. Chang Kin Man
Mr. Zhong Wen Sheng (Resigned on 4 January 2010)
Mr. Li Wen Jun (Appointed on 4 January 2010)

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
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 Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre, Town Place
33 Lockhart Road
Wanchai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1207, 12th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

CONTACTS

Telephone: (852) 2547 6382
Facsimile: (852) 2547 6629

WEBSITE

www.chinawaterind.com

STOCK CODE

1129

CHAIRMAN'S STATEMENT

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 2009.

RESULTS

In 2009, amidst the lingering effect of the global financial tsunami, a series of our plans to acquire water supply projects in the Mainland were further postponed due to a shortage of funds in a significantly shrinking capital market. To cope with such an adverse operating environment, the management of the Company took a number of proactive measures. On the one hand, we decisively disposed of some projects with low profitability and dim prospect, and utilized the proceeds therefrom to acquire new promising water supply projects; on the other hand, we placed substantial resources into the operation and management of our existing water supply projects and took a series of initiatives to control cost and improve profitability in an effort to maintain a sustained growth in our principle businesses despite the difficult operating conditions. Although the Group recorded a net loss of HK$342.49 million due to certain financial and accounting treatments and net loss on disposal of available for sale investments by iMerchants Limited (the "iMerchants"), a subsidiary of the Group, representing a sharp decrease of HK$401.30 million as compared with a net profit of HK$58.81 million reported in 2008, the principal water supply business and related construction work of the Group recorded a revenue of HK$172.11 million, representing an increase of 17.34% from HK$146.68 million recorded last year, and gross profit amounted to HK$60.23 million, representing an increase of 1.74% from HK$59.20 million recorded last year.

BUSINESS REVIEW

Water supply business

In 2009, the Group's revenue and profit from the water supply business in China has grown steadily and continuously. Revenue from this segment amounted to approximately HK$84.20 million, representing an increase of 7.20% as compared with last year. A substantial portion of the revenue was attributable to the contributions from the water supply business of Yichun Water, Danzhou Water and Yingtan Water, representing 81.56% of the total water supply revenue.

In addition, during the year, the Group is proceeding with the acquisition of a water supply plant in Tangshan City, Hebei Province. It is expected that the daily water supply capacity of the Group will increase by 55,000 tonnes from its existing basis to 2,015,000 tonnes.

Sewage treatment business

During the year, revenue from the sewage treatment business of the Group amounted to approximately HK$18.54 million. The major contributors of revenue for this business segment are Yichun City in Jiangxi Province, and Jinxiang County in Jining City in Shandong Province.

In addition, following the construction of phase II of the sewage treatment project in Yichun City completed in this year and phase II of the sewage treatment project in Jinxiang County in Jining City planned to be completed in 2010, the Group's daily sewage treatment capacity has expected to enlarge by 40,000 tonnes and 20,000 tonnes respectively. Furthermore, the Group is proceeding with the acquisition of two sewage treatment plants in Guangdong Province, which are expected to increase the Group's daily sewage treatment capacity by 50,000 tonnes to 180,000 tonnes.

CHAIRMAN'S STATEMENT

Construction of water supply and sewage treatment infrastructural facilities

In 2009, the revenue and gross profit from construction work and infrastructural projects amounted to approximately HK$101.74 million (2008: HK$89.69 million) and HK$49.92 million (2008: HK$46.98 million) respectively.

Management of investments in financial products and manufacturing and trading of ceramic sewage materials business

iMerchants Limited (the "iMerchants") (stock code: 8009), a company listed on the Growth Enterprise Market in Hong Kong, is currently owned 76.66% equity interest by the Group. Adversely affected by the global financial crisis, 2009 was an extremely challenging year for iMerchants. The investments in financial products of iMerchants recorded a loss of HK$10.13 million for the year (2008: profit of HK$10.24 million). Despite the short-term loss recorded for its investments, the management of iMerchants believes that the fair value of its investments will bring about satisfactory returns in the long run as most of its investments are held for the long-term purpose.

To minimize the risk of fluctuation and uncertainties associated with financial and securities products, the management of iMerchants continued to shift its investment focus to China. On the one hand, iMerchants maintained its ceramic sewage materials business, which recorded a revenue of HK$8.94 million for the year (2008: HK$0.83 million). As the supply of sewage treatment materials falls short of the increasing demand in Mainland China, it is believed that the ceramic sewage materials business will have a huge development potential and a promising prospect.

On the other hand, during the year, iMerchants acquired Supreme Luck International Limited ("Supreme Luck"), which provides management service to Shenzhen Careall Capital Investment Co., Ltd. ("Careall Capital"). Careall Capital is principally engaged in venture capital investment related business in the PRC, with a view to making investment in various enterprises with earnings potential and a prospect of listing at home or abroad. The acquisition will provide a platform for iMerchants to participate in securities investment business in the PRC and abroad through cooperation with Careall Capital, so as to secure a sustainable source of earnings. The revenue to be delivered by Supreme Luck will be reflected in guaranteed profits from Careall Capital to iMerchants, thus bringing about a satisfactory profit for the Group.

Trading of watches and accessories business

Since the closure of the image shop, the management has discontinued investment in the watches and accessories business. Full provision has been made on this business segment.

CHAIRMAN'S STATEMENT

PROSPECTS

Water is an indispensable resource for mankind. As a country with the largest population in the world, China has been striving to resolve the conflicts between supply and demand of water. The Chinese Government has never been so serious about saving and the protection of its water resources as it does today. In order to carry out the state policy of promoting energy efficiency and emission reduction and building a water-economic society, the Chinese Government continues to drive on the marketization reform in the water industry by advocating diversification of investment entities and raising water prices gradually and rationally. On the other hand, benefiting from the enormous economy-stimulating package adopted by the Chinese Government, China's economy has, ahead of other countries, begun to revive from the impact of the global financial tsunami. The infrastructure construction industry comprising of the water supply sector and the environment-protection industry comprising of the waste water processing sector were among those that benefited the most. The forementioned, plus the policy of encouraging the expansion of the urban population, has secured a continuously expanding marketplace with a booming demand for the water industry. Moreover, the importance of the water supply and waste water processing to people's livelihood and the economy of the country also secured the Chinese Government's long-lasting and practical encouragement and support for the industry. All this has offered excellent opportunities and conditions for the accelerated growth of our principal businesses.

After 3 years continuous development, our water supply volume and waste water processing volume in the Mainland have reached a reasonable scale with the operating income continuing to increase. During the year in particular, relying on the extensive experience of our management and the joint efforts of all our subsidiaries, we have been continuously reinforcing the operation management of our invested enterprises, especially the governance of those heavily-invested joint ventures, which resulted in further standardization and strict implementation of all the regulations and policies, expanded income sources and tightened expenditure control. We also keenly urged the Government to reasonably raise water prices, which helped boost the profitability of our water business. The Board believes that our operating results will turn over a new page and get to a higher level with the continuous promotion of our water business and spinning off those non-principal businesses.

Looking forward into 2010, we will continue to devote more resources in seeking and securing highly-potential water-related projects with satisfactory investment returns, obtain financing and introduce strategic investors in all possible ways, accelerate acquisition and increase investment in construction, so as to expand our income sources and achieve the expected investment scale in our water business and the expected level of profitability, and build the Group into a water business giant with a nation-wide influence in the shortest possible time and bring in favorable investment returns for our shareholders and 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 continuous support.

Li Yu Gui
Chairman

Hong Kong, 28 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Financial results

The Group suffered a consolidated net loss for the year of HK$342.49 million. Comparing with the net profit in the previous year of HK$58.81 million, this represented a significant and unanticipated fall of HK$401.30 million. The net loss for the current year could be analyzed as follows:

– a loss of HK$204.40 million from the change in fair value of Convertible Bonds ("CB");
– impairment loss on goodwill of HK$98.69 million; and
– net loss of HK$22.72 million from disposal of available-for-sale investments.

The loss of the Group before the accounting treatments regarding the fair value adjustment of CB and the impairment loss on goodwill for the year ended would be HK$39.40 million.

Revenue and gross profit

For the year ended 31 December 2009, the Group has achieved a continuing growth in revenue and gross profit, which amounted to HK$211.05 million and HK$77.68 million respectively. This represented a slight growth of 8.27% in revenue and 1.16% in gross profit as compared to the last year. Revenue and gross profit were mainly attributable from the water supply and related construction work. The main revenue contributors for the year were Yichun Water Industry Co., Ltd ("Yichun Water"), Danzhou Qingyuan Water Industry Company Limited* ("Danzhou Water") and Yingtan Water Supply Co., Ltd ("Yingtan Water"), which collectively accounted for 45.83% of consolidated revenue.

Other operating income

Other operating income mainly comprised of bank interest income of HK$0.23 million and other operating income recorded in certain water supply plants of HK$5.10 million. Other operating income has dropped by HK$4.08 million as bank interest income has reduced by HK$2.19 million and a one-off income including the disposal of convertible notes receivable of HK$1.33 million and government subsidiaries of HK$1.91 million for snow disaster had been recognized in the previous year.

Gain on disposal of subsidiary

During the year, the Group has disposed of its entire equity interest in Longwide Investment Limited and its subsidiaries ("Longwide Group") to independent third parties at the consideration of HK$50 million. A gain on disposal of HK$7.50 million has been recognized.

Gain on deemed partial disposal of a subsidiary

During the year, iMerchants has issued 61,522,160 Ordinary Shares as a partial consideration for the acquisition of Supreme Luck (for details, please refer to the Company's announcement dated 23 October 2009). As a result, the Group's equity interest in iMerchants has been diluted from 84.98% to 76.66%. Pursuant to the Hong Kong Financial Reporting Standards ("HKFRS"), the Group was deemed of having disposed of 8.32% of iMerchants, and a gain thereon of approximately HK$21.32 million has been recognized.

Selling and distribution costs and administrative expenses

Selling and distribution costs and administrative expenses have collectively increased by HK$18.92 million which mainly resulted from the acquisition of exclusive right through newly acquired subsidiary of Supreme Luck and the increase in scale of operation. Pursuant to the HKFRS, the exclusive right deemed as an intangible asset which is amortized over its estimated useful lives, the amortization cost thereon of HK$10.28 million has been recognized. During the year, ceramic sewage materials business and Yingtan Water have been commencing full operation.

MANAGEMENT DISCUSSION AND ANALYSIS

Net loss on disposal of available-for-sale investments

Net loss of HK$22.72 million has been recognized from the disposal of available-for-sale investments, which was mainly held by the iMerchants, a subsidiary of the Group whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Loss on disposal of a business

Loss of HK$4.76 million was resulting from the disposal of its assets and liabilities of a branch of Jining City Haiyuan Water Treatment Limited* ("Jining Haiyuan") in Liang Shan County.

Impairment loss recognised on trade and other receivables

The impairment loss of HK$8.44 million was provided for the long outstanding trade receivable of HK$2.72 million and the other receivable of HK$5.72 million regarding the financial assistance given to a sewage treatment plant.

Impairment loss recognized in respect of goodwill

During the year ended 31 December 2009, the Group recognised an impairment loss of goodwill with an aggregate amount of HK$98.69 million (2008: HK$7.84 million). The goodwill arose from acquisitions of Blue Mountain Hong Kong Group Ltd., Danzhou Lian Shun Tong Water Pipe Company Limited*, Onfar International Limited, Jining City Haiyuan Water Treatment Company Limited*, Anhui Dang Shan Water Industry Co. Ltd and Plenty One Limited which has been allocated to different cash-generating units, namely provision of water supply, sewage treatment and others. The impairment loss has incurred as a result of the present value of estimated future cash flows expected to arise from these cash-generating units which is less than the respective carrying amount of the units. The carrying amount included the carrying value of goodwill and the net asset value.

Finance costs

Finance costs mainly comprised of interest on bank and other borrowings of HK$11 million and convertible bond interest of HK$3.44 million. During the year, zero coupon convertible bonds of HK$200 million were issued by iMerchants as a partial consideration for the acquisition of Supreme Luck, which resulted in imputed interest expenses of HK$2.47 million. The imputed interest was resulted from accounting treatment and it did not affect the actual cashflow of the Group.

Share of profit from associate

The Group has acquired 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") in previous years. During the current year, the Group has shared a post-acquisition profit from Jinan Hongquan of HK$2.18 million.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group has maintained a healthy financial position. As at 31 December 2009, cash and bank balance as well as cash held at Financial institutions increased to HK$277.86 million (compared with HK$148.64 million on 31 December 2008). The increase was mainly due to the realization of iMerchants's investment portfolio and two top-up placements completed. Furthermore, the Group has had steady cash flow generating from the water supply business segment.

Total liabilities of the Group as at 31 December 2009 were HK$937.12 million (compared with HK$874.00 million on 31 December 2008). They mainly comprised of the CB of HK$585.17 million (2008: HK$262.34 million), bank and other borrowings of HK$135.64 million (2008: HK$148.13 million), and government grants of HK$60.04 million (2008: HK$55.76 million). The CB was denominated in HK dollars, while others were denominated in Renminbi.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's gearing ratio as at 31 December 2009 was 41.09% (compared with 55.14% on 31 December 2008). The ratio was calculated by dividing total liabilities of HK$937.12 million over total assets of the Group of HK$2,280.65 million.

At as 31 December 2009, the Group had net current liabilities of HK$306.62 million (2008: net current liabilities of HK$122.54 million). The non-current portion of CB amounting to HK$466.74 million has been reclassified to current liabilities, which represented 68.19% of the total current liabilities. Pursuant to the bond purchase agreement dated 30 July 2007, the holders of CB have the right to demand the Company to redeem all CB on 3 August 2010. The Company is currently in the process of negotiating with certain bondholders to restructure the CB. On the other hand, the board is also considering various fund raising alternatives to strengthen the capital base of the Company. The Board is confident that the Group will be able to meet its financial obligation as and when they fall due and has sufficient working capital to support future operational needs.

CAPITAL RAISING AND USE OF PROCEEDS

To further strengthen its financial base, the Company has made two top-up placements during the year, 365,000,000 new shares were placed on 8 June 2009 at HK$0.33 per placing share on a fully underwritten basis and approximately HK$116.91 million had been generated therefrom. Another 450,479,000 new shares were placed on 6 August 2009 at placing price of HK$0.295 per share on a best effort basis. The later one was completed on 14 August 2009 and approximately HK$128.99 million of net proceeds had been raised.

The proceeds from fund raising exercises were mainly spent on strategic acquisitions and investment on committed projects during the year. During the year ended 31 December 2009, the Group has incurred capital expenditures amounting to HK$207.21 million (2008: HK$183.57 million), of which HK$98.89 million had been used for acquisition of an intangible asset by iMerchants, HK$50.90 as a deposit was paid for acquiring the water supply and sewage treatment project in the PRC, and HK$57.42 million was spent mainly for construction of sewage treatment plants. The unutilized amounts will continue to be invested in the committed projects and general working capital of the Group.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Acquisition of subsidiaries

On 8 April 2009, iMerchants through its wholly-owned subsidiary of Growwise Holdings Limited, entered into a sale and purchase agreement with Rightshine Holdings Limited (the "Rightshine"), to acquire the entire issued share capital of Supreme Luck at a consideration of HK$900,000,000. The Consideration was satisfied by cash and/or the issuance of a promissory note and the allotment of consideration shares, convertible preference shares and convertible bonds. The acquisition was completed in October 2009. Upon completion of the acquisition, 61,522,160 Consideration Shares, the Convertible Bonds and 2,938,477,840 Convertible Preference Shares were allotted and issued to the Rightshine by the iMerchants on 23 October 2009.

On 27 April 2009, Swift Surplus Holdings Limited ("Swift Surplus"), 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. Owing to the litigation and seizure of the certain target companies yet to be resolved, the Swift Surplus and Vendors entered into the Termination Agreement on 18 September 2009 to suspend the acquisition with immediate effect. The Directors are of view that the termination will not cause any material adverse impact on the existing business of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

On 18 September 2009, Swift Surplus entered into the agreement with Sihui South China Waterworks Development Co., Ltd.* ("Sihui South China") (四會市華南水務發展有限公司), Shenzhen City South China Waterworks Group Co., Ltd.* ("Shenzhen City South China") (深圳市華南水務集團有限公司) and Da Xin Waterworks Management (Huizhou) Co., Ltd.* ("Da Xin Waterworks") (達信水務管理（惠州）有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 70% of the registered capital of Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* ("Gaoming Huaxin") (佛山市高明區華信污水處理有限公司); 70% of the registered capital of Tangshan City Hongxiang Waterworks Limited* ("Hongxiang") (唐山市鴻翔水務有限公司); 100% interest of Boluo Phase II Project Company ("Boluo Phase II") (博羅二期項目公司) respectively, at a consideration of HK$170 million. The Group has paid HK$50.90 million as a deposit for the acquisition and the remaining amount will be paid upon the completion of the transaction. This acquisition has not been completed as of this report date. Subsequent to the year, the relevant parties for the aforementioned acquisition, entered into the Supplemental Agreement on 22 April 2010 to extend the long stop date of the acquisition of the Sale Interests to a date falling on or before 31 October 2010. Upon completion of the acquisition, there will be an additional 2 sewage treatment plants and one water supply plant added into the Group.

Disposal of a subsidiary and a branch

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 Group, at a consideration of HK$50 million. Longwide Group is engaged in provision of the water supply and sewage treatment business in the PRC. This transaction was completed on 2 April 2009.

On 27 March 2009, Jining Haiyuan, an indirectly owned subsidiary of the Company, disposed of all its assets and liabilities in the branch of Liang Shan County, Jining City, the PRC to Liu Qing Chen, an independent acquirer, at a consideration of HK$10 million. This transaction was completed on 15 April 2009.

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

Disposal of assets in subsidiary

On 3 December 2007 and 28 January 2008, the iMerchants and iMerchants Hong Kong Limited entered into the disposal agreement and the supplemental agreement, respectively, pursuant to which the iMerchants conditionally agreed to sell and iMerchants Hong Kong Limited conditionally agreed to purchase the securities and assets at a total consideration of approximately HK$39.4 million. The Disposal was completed on 29 May 2009.

Letter of Intent

On 9 September 2009, the Mark Profit Group Holdings Limited, being a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with the Shenzhen City South China in relation to a possible acquisition of 70% of the Hongxiang. Hongxiang has a project namely Tangshan City Harbourfront Industrial Estate Project* ("Tangshan project") (唐山市臨港工業園區供水項目). The annual aggregate water supply capacity of Tangshan project is approximately 20,000,000m^3, sterilization pools and water supply pipelines networks, etc. Tangshan project is still under construction and is expected to be completed on or before 31 December 2010. It is currently expected that the Tangshan project will commence operation by 30 June 2011. The agreement relating to the acquisition of Tangshan project was signed on 18 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Mr. 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 the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company, Certified Public Accountant as a liquidator of Technostore. The Liquidator, Happy Hour Limited and Mr. Mao Chi Fai become members in the Committee of Inspection ("COI"). The matter is still in the liquidation process up to the report date and is being handled by the Official Receiver's Office. As of the report date, the latest development in the liquidation process reported by the Liquidator was that all stocks with costs of approximately HK$2.2 million handed over by the Official Receiver's Office were disposed at the consideration of HK$0.62 million by public tender in October 2009. The Liquidator is now arranging a meeting with the COI members for reporting of the progress of the liquidation including discussion on dividend distribution. The COI meeting is expected to be held in next few months. The dividend distribution will be confirmed or advised after the COI meeting. The directors of the Company 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 that there will be a material adverse financial impact on the Group.

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

On 6 November 2007, the People's Government of Danzhou and Super Sino Investment Limited ("Super Sino") entered into an assets and liabilities transfer agreement, pursuant to which the assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) were transferred to Super Sino. On 26 June 2008, Agricultural Bank of China Danzhou Branch instituted proceedings with Hainan Intermediate People's Court against Danzhou City Water Company, Super Sino and the People's Government of Danzhou (a third party) regarding the abovementioned transfer of the relevant liabilities, claiming for the principal of RMB26 million and the interest thereon of RMB40.84 million repayable by Danzhou City Water Company* and Super Sino (as defendants). On 13 November 2009, the First Intermediate People's Court of Hainan Province issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26 million together with the interest thereon. As Agricultural Bank of China Danzhou Branch as plaintiff appealed that it is improper to release the guarantee responsibility of Danzhou Urban Development Corporation under the first-instance sentence, therefore, the relevant disputes is still in the second instance for the final sentence to be made by the Higher People's Court of Hainan Province. Following the issue of the verdict, however, Agricultural Bank of China Danzhou Branch and Super Sino agreed to resolve the issue by way of mediation, and reached a verbal agreement thereon. The relevant settlement agreement will be duly entered into after the review, report and approval procedures have been completed by the plaintiff according to relevant procedures. It is expected that the settlement agreement will be reached, the interest of the said loan will be reduced and the repayment period will be extended. The principal of the said loan and the interest thereon have been included in the financial statements of the Group. The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material financial impact on the Group.

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

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 the transactions, assets and liabilities are denominated in Renminbi. Accordingly, the Group does not have derivative financial instruments to hedge its foreign currency risks

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$63.76 million in total as at 31 December 2009 (2008: HK$65.59 million) were secured by:

(i) charges over property, plant and equipment in which their aggregate carrying amount was HK$2.19 million (2008: HK$5.64 million);

(ii) charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK$12.88 million (2008: HK$10.91 million); and

(iii) charges over concession intangible assets in relation to exclusive operating rights for provision of water supply and sewage treatment service to the public users in which their aggregate carrying amount was HK$19.39 million (2008: HK$19.58 million).

CAPITAL COMMITMENTS

As at 31 December 2009, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$7.51 million (2008: HK$5.39 million).

EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2009, the Group has employed approximately 884 full-time employees (2008: 2,662 full-time employees). The substantial decreased in number of employees was due to disposal of Longwide Group during the year. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Yu Gui ("Mr. Li"), aged 64, was appointed as the Chairman and Executive Director of the Company in October 2007. Currently, he also serves as 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. Yang Bin ("Mr. Yang"), aged 36, was appointed as the Executive Director of the Company in December 2008 and the Chief Executive Officer in June 2009. Mr. Yang is currently an Executive Director of iMerchants Limited (Stock code: 08009), a non wholly-owned subsidiary of the Company and the shares of which are listed on the Growth Enterprise Market of The Stock Exchange. Mr. Yang 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 People's Republic of China (the "PRC") as well as designing and constructing water supply piping network.

Mr. Liu Bai Yue ("Mr. Liu"), aged 59, was appointed as the Chief Operating Officer and Executive Director of the Company in January 2007, Mr. Liu 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 24 years of experience in handling and management of international trade, investment, corporate restructure and merger and acquisition.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 39, was appointed as the Executive Director and Company Secretary of the Company in October 2006. Ms. Chu 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 15 years' extensive experience by working in an international audit firm and other listed companies.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Wen Jun ("Mr. Li"), aged 51, was appointed as the Executive Director of the Company in June 2009. Mr. Li is currently an Executive Director of iMerchants Limited (stock code: 08009), a non wholly-owned subsidiary of the Company and the shares of which are listed on the Growth Enterprise Market of The Stock Exchange. Mr. Li was graduated from Department of Chemical Machinery of South China University of Technology. He has passed the national training and examination organised by the State Council of the PRC in respect of the overseas delegated engineer and he has also passed the national training and examination for managers and factory director. Mr. Li has more than 25 years of extensive experience in chemical engineering and management of the chemical industry in the PRC. Mr. Li has also conducted various research and development projects in relation to organic chemistry majoring in research on treatment of sewerage by BAF (Biological Aerated Filter).

Independent Non-executive Directors

Mr. Chang Kin Man ("Mr. Chang"), aged 46, was appointed as the Independent Non-executive Director of the Company in June 2006. Mr. Chang is currently an Independent Non-executive Director of Birmingham International Holdings Limited (stock code: 2309) which is listed on the Main Board of the Stock Exchange, and iMerchants Limited (stock code: 8009), a non wholly-owned subsidiary of the Company and which is listed on the Growth Enterprise Market operated by the Stock Exchange. He 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 ("Mr. Wu"), aged 44, was appointed as the Independent Non-executive Director of the Company in June 2006. Mr. Wu is currently an Independent Non-executive Director of Apollo Solar Energy Technology Holdings Limited (stock code: 566), AUPU Group Holding Company Limited (stock code: 477) and Neo-Neon Holdings Limited (stock code: 1868) which are listed on the Main Board of the Stock Exchange, and AKM Industrial Company Limited (stock code: 8298), Finet Group Limited (stock code: 8317) and iMerchants Limited (stock code: 8009) which are listed on the Growth Enterprise Market operated by the Stock Exchange. Mr. Wu 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's Degree in Business Administration from the University of Manchester and the University of Wale. Mr. Wu is a Vice-President of The Association of Chartered Certified Accountant and President of The Taxation Institute of Hong Kong. He is also a Vice-President of Hong Kong Guangdong Youth Exchange Promotion Association, a Council Member of Kiangsu, Chekiang and Shanghai Resident (HK) Association and an Honorary Associate of the School of Business of the Hong Kong Baptist University.

Mr. Gu Wen Xuan ("Mr. Gu"), aged 67, was appointed as the Independent Non-executive Director of the Company in November 2006, Mr. Gu 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's Degree in Geography and Master's 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT OF THE GROUP

Mr. Gu Ling Bo ("Mr. Gu"), aged 41, joined the Company as the General Manager in December 2006. He holds a Bachelor's Degree in Radiation Chemistry from Sichuan University, the People's Republic of China (the "PRC") and a Master's Degree in Business Administration from the New York Institute of Technology, USA. Currently, Mr. Gu is 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. He has successfully reorganized the management team of Yichun Water and brought a remarkable profit growth to Yichun Water under his governance. Mr. Gu has more than 10 years extensive expertise and experiences in corporate development and project management.

Mr. Zhong Wen Sheng ("Mr. Zhong"), aged 43, had resigned as the Managing Director of the Company in January 2010 but remain serves as a General Manager of Company. He graduated from the Sichuan University with a Master's Degree in National Economic Management. 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.

Ms. Lam Man Yee, Maria ("Ms. Lam"), aged 38, was appointed as the Financial Controller of the Company in December 2006 and is responsible for Financial Management and Corporate Administration. Ms. Lam holds a Bachelor's Degree in Accountancy. She 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 has over 10 years of working experience in auditing, internal auditing, financial accounting and management accounting.

Mr. Zhang Yan Qing ("Mr. Zhang"), aged 41, joined the Company as a Deputy General Manager in December 2006. Mr. Zhang holds a Master's Degree in Business Administration from Hefei University of Technology. Before joining Company, 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.

Mr. Tang Hui Ping, Paul ("Mr. Tang"), aged 55, joined the Company in August 2007. He was appointed as a Chief Internal Auditor in April 2009 and Deputy General Manager in June 2009. Mr. Tang holds a Bachelor's Degree in Accountancy from South Central University of Finance & Economics, Politics & Law, China and a Master's Degree in Business Administration from the Oklahoma City University. He is a member of Certified Management Accountant of Australia in 2000. Mr. Tang has more than 27 years extensive experience in the finance & accounting field in the PRC, H.K. and Canada.

Mr. Liu Peng Cheng ("Mr. Liu"), aged 37, had resigned as the Executive Director and Deputy Chairman of the Company in May 2009 but remain serves as a General Manager of the Engineering Department of the Company. Mr. Liu holds a Bachelor of Science Degree in Physics from the Shenzhen University. Before joining the Company, he 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's 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.

CORPORATE GOVERNANCE REPORT

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 the shareholders and in the long-term shareholders value.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. Throughout the financial year ended 31 December 2009, the Company has complied with the code provisions 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.

CORPORATE GOVERNANCE PRACTICE

A Directors

A.1 Board of Directors

- The Company has held 51 Board meetings in the year 2009. Directors have been consulted to contribute to 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 such as by telephone, electronic or other communication facilities. The Minutes of the Board and the Board Committees are recorded in sufficient detail and kept by the company secretary for inspection at any reasonable time as long as reasonable notice is received by any Director.

- Directors were supplied with adequate and relevant information in a timely manner to enable them to form 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 the member of the Board and/or committee to seek independent professional advice at the Company's expense to assist them to discharge their duties.

CORPORATE GOVERNANCE REPORT

- 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 is set out below:

Name	Number of Board Meetings Attended/Total
Total numbers of meetings held during the year of 2009	51
Executives Directors:	
Mr. Li Yu Gui *(Chairman)*	43/51
Mr. Yang Bin *(Chief Executive Officer)*	50/51
Mr. Liu Bai Yue *(Chief Operating Officer)*	48/51
Ms. Chu Yin Yin, Georgiana	22/51
Mr. Li Wen Jun (Appointed on 3 June 2009)	37/51
Mr. Zhong Wen Sheng *(Managing Director)* (Resigned on 4 January 2010)	29/51
Mr. Shi De Mao (Resigned on 31 May 2009)	0/51
Mr. Liu Peng Cheng *(Deputy Chairman)* (Resigned on 31 May 2009)	4/51
Non-Executives Directors:	
Mr. Huang Yuan Wen (Resigned on 10 June 2009)	0/51
Mr. Pan Shi Ying (Resigned on 10 June 2009)	0/51
Independent Non-Executive Directors:	
Mr. Chang Kin Man	38/51
Mr. Wu Tak Lung	3/51
Mr. Gu Wen Xuan	12/51

A.2. Chairman and Chief Executive Officer

- The Chairman of the Group is Mr. Li Yu Gui ("Mr. Li") and the Chief Executive Officer of the Group is Mr. Yang Bin ("Mr. Yang"). The roles of Chairman and CEO are separate and not performed by the same individual to ensure a balance of power and authority. Their responsibilities are clearly defined and as set out in the Guidance notes of the separation of roles of the Chairman and CEO 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 CEO 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 8 members including 5 Executive Directors and 3 Independent Non-Executive Directors. Members of the Board have different professional and relevant industry experience and background so as to bring in valuable contributions and advices for the development of the Group's business. There are two qualified accountants among Independent Non-Executive Directors.

- The Company has received written confirmation from each Independent Non-Executive Director of their independence to the Group. The Group considered all of the Independent Non-Executive Directors meet 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 addition directors are 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 addition 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 deem 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. During the year, Mr. Li Wen Jun was appointed as a director after the above process of selecting and procedures was carried out by the Board.

CORPORATE GOVERNANCE REPORT

- 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, overseeing the Group's businesses and evaluating 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 the Management, it has given clear directions as to the powers of the Management, in particular, with respect to the circumstances where the 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 plus Board papers are 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 2009.

A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 34 to 35 of this annual report. The details of the internal controls of the Company and the audit committee are set out under the section of "Internal Control" and "Audit Committee".

C.2 Internal Control

- The Board acknowledges its responsibility in maintaining a 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 controls aims to help achieve 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 of 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.

- To more effectively review the operation and management of the Group and the effectiveness of the internal control system, the Company set up an Internal Audit Department in April 2009. The scope of an internal audit covers key areas such as the Company operation, investments, corporate governance and financial management. The results and suggestions of the Internal Audit Department are reported by the Chief Internal Auditor directly to the Audit Committee for consideration, then makes recommendations to the management of the Company and reports to the Board in respect thereof.

- During the year, the Board has through the Chief Internal Auditor and SHINEWING Risk Services Limited, an independent accountancy firm, conducted a review on the Group's internal control systems, including but not limited to financial, operational and compliance controls and risk management functions. The Board is of the view that the internal control system of the Group is effective and adequate, no material deficiencies have been identified.

C.3 Audit Committee

The Audit Committee comprises of 3 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 accountants for many years. In performing its duties, it has unrestricted access to personnel, records, external auditors and senior management. The major duties of the Audit Committee include:

(a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and the terms of engagement of the external auditor;

(b) to oversee the Company's financial controls, internal control and risk management systems;

(c) to co-ordinate between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(d) to review the interim and final results of the Group prior to recommending them to the Board for approval;

(e) to review the group's financial and accounting policies and practices.

For the year under review, the Audit Committee held 2 meetings which included the review of the final results for the year ended 31 December 2008 and interim accounts for 30 June 2009. The Group's annual report for the year ended 31 December, 2009 has been reviewed by the Audit Committee. The individual attendance records of each member are as follows:

Name	Number of Meetings Attended/Total
Independent Non-Executive Directors:	
Mr. Chang Kin Man *(Chairman)*	2/2
Mr. Wu Tak Lung	2/2
Mr. Gu Wen Xuan	2/2

D Delegation by the Board

D.1 Management functions

When the Board delegates aspects of its management and administration functions to the management, it gives clear directions as to the powers of management, in particular, with respect to the circumstance where the 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 has 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.

D.3 Remuneration Committee

The Company has established a Remuneration Committee since 29 June 2005 with written terms of reference consistent with the Corporate Governance Code. During the year under review, the members of the Remuneration Committee comprised of 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). On 4 January 2010, Mr. Zhong Wen Sheng resigned as a member of this committee and Mr. Li Wen Jun was appointed in place of Mr. Zhong.

(a) 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 package 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 to 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 advise shareholders on how to vote with respect to any service contracts of directors that requires shareholders' approval under the Listing Rules.

(b) 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.

(c) 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.

(d) Further details on the emolument policy and the basis of determining the emolument payable to the Directors are set out in the pages 74 to 76 of this annual report.

(e) The Group's stock option scheme as described on pages 121 to 122 of this annual report is adopted as the Group's long-term incentive scheme.

(f) The Remuneration Committee held 1 meeting during the year to review and approve the remuneration of Executive Directors and senior management. The attendance record of individual members is set out below:

Name	Number of Meetings Attended/Total
Independent Non-Executive Directors:	
Mr. Chang Kin Man *(Chairman)*	1/1
Mr. Wu Tak Lung	1/1
Executive Director:	
Mr. Zhong Wen Sheng (Resigned on 4 January 2010)	1/1

D.4 Investment Committee

(a) The Investment Committee of the Company has been established since 18 December 2008, it consists 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. On 4 January 2010, Mr. Zhong Wen Sheng resigned as a member of this committee and Mr. Li Wen Jun was appointed in place of Mr. Zhong. The role of the 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. The Investment Committee held 3 meetings during the year. The attendance record of individual members is set out below:

Name	Number of Meetings Attended/Total
Executive Directors:	
Mr. Li Yu Gui *(Chairman)*	3/3
Mr. Liu Bai Yue	3/3
Mr. Yang Bin	3/3
Mr. Zhong Wen Sheng (Resigned on 4 January 2010)	3/3
Independent Non-Executive Director:	
Mr. Chang Kin Man	3/3

E Communication with Shareholders

E.1 Effective communication

The annual general meeting 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. The annual report together with the annual general meeting circular is distributed to all the shareholders at least 20 clear business days before the annual general meeting.

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.

E.2 Voting by poll

The rights of the 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 the meetings.

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

CORPORATE GOVERNANCE REPORT

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.

AUDITORS' REMUNERATION

For the financial year, SHINEWING (HK) CPA Limited, the auditors of the Company, the fee paid or payable to the auditor for audit and its affiliates service provided to the Group is approximately HK$960,000 and for non-audit service provided is approximately HK$1,089,000 mainly for the purpose of reviewing the 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 the auditor.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code throughout the financial year ended 31st December 2009 except for deviations from the code provision A4.1 as 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.

REPORT OF THE DIRECTORS

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 2009.

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 53 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 segments is set out in pages 3 to 4.

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 7 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on pages 36 to 37.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, 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 have 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 15 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 32, 48, and 35 to the consolidated financial statements, respectively.

REPORT OF THE DIRECTORS

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 pages 40 to 41.

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2009 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 page 132.

DIRECTORS

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

Executives Directors:

Mr. Li Yu Gui *(Chairman)*
Mr. Yang Bin *(Chief Executive Officer)*
Mr. Liu Bai Yue *(Chief Operating Officer)*
Ms. Chu Yin Yin, Georgiana
Mr. Li Wen Jun (Appointed on 3 June 2009)
Mr. Liu Peng Cheng *(Deputy Chairman)* (Resigned on 31 May 2009)
Mr. Zhong Wen Sheng *(Managing Director)* (Resigned on 4 January 2010)
Mr. Shi De Mao (Resigned on 31 May 2009)

Non-Executives Directors:

Mr. Huang Yuan Wen (Resigned on 10 June 2009)
Mr. Pan Shi Ying (Resigned on 10 June 2009)

Independent Non-Executive Directors:

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, Mr. Li Yu Gui, Mr. Liu Bai Yue and Mr. Gu Wen Xuan will retire from office by rotation and will offer themselves for re-election at the AGM.

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. Mr. Li Wen Jun shall hold office only until the AGM and will offer himself for re-election at the AGM.

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 2009, 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 2009, 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 of Hong Kong Limited (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	5,432,000	5,432,000 (L)	0.20%
Yang Bin	Interest of controlled corporation	450,479,000	450,479,000 (L) *(Note)*	16.64%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 2,706,379,000 Shares in issue as at 31 December 2009.

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

Note: These China Water Shares are held by Boost Skill Investments Limited (as to 265,479,000 China Water Shares) and its wholly owned subsidiaries, Favor Jumbo Investments Limited (as to 130,000,000 China Water Shares) and Sure Ability Limited (as to 55,000,000 China Water Shares). Mr. Yang Bin is interested in 60% of the equity interest in Boost Skill Investments Limited.

REPORT OF THE DIRECTORS

(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	3,000,000	0.11
Liu Bai Yue	0.420	17 January 2007 to 16 January 2017	5,000,000	0.18

Note: For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 2,706,379,000 Shares in issue as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, 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 2009, 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
Li Jian Ping	Interest of controlled corporation	450,479,000 *(Note 1)*	16.64%
Boost Skill Investments Limited	Interest of controlled corporation	185,000,000 *(Note 2)*	6.84%
	Beneficial owner	265,479,000	9.80%
Abax Arhat Fund	Interest of controlled corporation	228,873,239 *(Note 3)*	8.46%
Abax Claremont Limited	Interest of controlled corporation	228,873,239 *(Note 3)*	8.46%
Abax Global Capital	Interest of controlled corporation	228,873,239 *(Note 3)*	8.46%
Abax Global Opportunities Fund	Interest of controlled corporation	228,873,239 *(Note 3)*	8.46%
Abax Upland Fund, LLC	Interest of controlled corporation	228,873,239 *(Note 3)*	8.46%
Abax Lotus Limited	Beneficial owner	228,873,239 *(Note 3)*	8.46%

Note 1: These China Water Shares are held by Boost Skill Investments Limited (as to 265,479,000 China Water Shares), Favor Jumbo Investments Limited (as to 130,000,000 China Water Shares) and Sure Ability Limited (as to 55,000,000 China Water Shares). Mr. Yang Bin, an Executive Director, and Mr. Li Jian Ping is interested in 60% and 40% respectively of the equity interest in Boost Skill Investments Limited.

Note 2: These China Water Shares are held by Favor Jumbo Investments Limited (as to 130,000,000 China Water Shares) and Sure Ability Limited (as to 55,000,000 China Water Shares).

Note 3: 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 4: The shareholding percentage in China Water is calculated on the basis of 2,706,379,000 China Water Shares in issue as at 31 December 2009.

REPORT OF THE DIRECTORS

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 2009, 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 SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was 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 52 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING 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 48 to the consolidated financial statements.

Details of the movements in the share options during the year ended 31 December 2009 under the Scheme are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2009	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				8,000,000		
Other eligible participant *(Note)*	11 January 2007	10,000,000	–	–	–	10,000,000	11 January 2007 to 10 January 2017	0.335
Total as at 31 December 2009		**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 still entitled to the granted share option benefit. To reflect appropriate category of participant, it was reclassified Mr. Sze from director to another 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.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

The Group's subsidiary in the PRC participates in a Central Pension Scheme ("CPS") operated by the PRC government. The subsidiaries are required to contribute a certain percentage of the relevant PRC employees' salaries to the CPS. The Group's subsidiary in Hong Kong has also participated in a mandatory provident fund scheme for its staff based in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance. Save as disclosed the Group was not required to operate any other of retirement benefits of its employees during the year.

POST BALANCE SHEET EVENT

There was no post balance sheet events occurring after the reporting period.

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 28 April 2010 (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 had established an Audit Committee comprising of three independent non-executive directors of the Company. The Audit Committee of the Company has reviewed the unaudited consolidated financial statements for the year ended 31 December 2009. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 19 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 24 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 of the Listing Rules. 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 Director 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, 28 April 2010

INDEPENDENT AUDITOR'S REPORT

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 were engaged to audit 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 36 to 131, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 in accordance with our agreed terms of engagement, 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.

However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

Fundamental uncertainty relating to the going concern basis

As explained in note 2 to the consolidated financial statements, which indicates that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK$354,239,000 for the year ended 31 December 2009 and had a consolidated net current liabilities of approximately HK$306,617,000 as at 31 December 2009, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon future funding available.

The consolidated financial statements do not include any adjustments that would result from the unavailability of future funding. We consider that appropriate disclosures have been made. However, the uncertainty surrounding the outcome of future funding available raises significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments that may be necessary should the future funding be available. We consider that appropriate disclosures have been made in the consolidated financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

Disclaimer of opinion: disclaimer on view given by the consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements 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
28 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	6	**335,834**	289,875
Revenue		**211,046**	194,926
Cost of sales		**(133,362)**	(118,131)
Gross profit		**77,684**	76,795
Other operating income	8	**5,385**	9,461
Change in fair value of convertible bonds		**(204,404)**	64,537
Selling and distribution costs		**(11,196)**	(7,963)
Administrative expenses		**(84,818)**	(69,127)
Discount on acquisition of a business	42	**–**	12,443
Gain on disposal of subsidiaries	43(a)	**7,504**	–
Loss on disposal of a business	43(b)	**(4,760)**	–
Gain on deemed partial disposal of a subsidiary	44	**21,323**	–
Net loss on disposal of available-for-sale investments		**(22,721)**	–
Net gain on disposal of debt securities		**–**	1,142
Net gain on disposal of listed trading securities		**1,729**	5,531
Increase in fair values of financial assets at fair value through profit or loss		**–**	2,620
Impairment loss recognised on trade and other receivables		**(8,444)**	(8,311)
Impairment loss recognised on goodwill	19	**(98,685)**	(7,837)
Share of results of an associate		**2,183**	(3,265)
Finance costs	9	**(14,930)**	(10,280)
(Loss) profit before tax	10	**(334,150)**	65,746
Income tax expense	12	**(8,335)**	(6,937)
(Loss) profit for the year		**(342,485)**	58,809
Other comprehensive income (expense) for the year, net of tax			
Exchange difference arising on translation		**3,057**	15,317
Exchange reserve released upon disposal of a subsidiary	43	**(5,028)**	–
Change in fair value of available-for-sale investments		**10,265**	(78,394)
Release of investment revaluation reserve upon disposal of available-for-sale investment		**70,520**	(771)
Share of exchange reserve of an associate		**681**	2,189
Total comprehensive expense for the year, net of tax		**(262,990)**	(2,850)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	**2009** **HK$'000**	*2008* *HK$'000*
(Loss) profit for the year attributable to:			
Owners of the Company		**(354,239)**	43,942
Minority interests		**11,754**	14,867
		(342,485)	58,809
Total comprehensive expense attributable to:			
Owners of the Company		**(284,909)**	(15,792)
Minority interests		**21,919**	12,942
		(262,990)	(2,850)
(Loss) earnings per share (HK cents)	*14*		
Basic		**(15.68)**	2.32
Diluted		**(15.68)**	(0.91)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	15	**103,164**	129,947
Prepaid lease payments	16	**42,854**	76,443
Concession intangible assets	17	**416,718**	608,726
Intangible asset	18	**915,301**	–
Goodwill	19	**250,995**	383,347
Available-for-sale investments	20	**65,040**	59,519
Interest in an associate	21	**57,853**	55,783
Deposit paid for acquisition of subsidiaries	22	**50,901**	–
		1,902,826	1,313,765
Current assets			
Inventories	23	**13,304**	12,882
Trade and other receivables	24	**74,600**	105,910
Amounts due from customers for contract works	28	**10,884**	–
Amount due from a minority shareholder of a subsidiary	25	**–**	1,952
Prepaid lease payments	16	**1,181**	1,794
Cash held at financial institutions	26	**212,474**	13,170
Bank balances and cash	26	**65,383**	135,472
		377,826	271,180
Current liabilities			
Trade and other payables	27	**138,959**	209,215
Amounts due to customers for contract works	28	**657**	–
Bank borrowings – repayable within one year	29	**33,017**	32,716
Other loans – repayable within one year	30	**33,813**	42,395
Amounts due to minority shareholders of subsidiaries	31	**8,258**	105,802
Convertible bonds	35	**466,739**	–
Tax payables		**3,000**	3,587
		684,443	393,715
Net current liabilities		**(306,617)**	(122,535)
		1,569,209	1,191,230

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	32	**270,638**	189,090
Reserves		**190,659**	326,989
Equity attributable to owners of the Company		**461,297**	516,079
Non-redeemable convertible preference shares of a subsidiary	33	**587,696**	–
Equity component of convertible bonds of a subsidiary	36	**84,045**	–
Minority interests		**210,496**	194,862
Total equity		**1,343,534**	710,941
Non-current liabilities			
Bank borrowings – due after one year	29	**23,909**	27,076
Other loans – due after one year	30	**44,902**	45,940
Loan from an associate	34	**–**	3,384
Amounts due to minority shareholders of subsidiaries	31	**–**	81,427
Convertible bonds	35	**–**	262,335
Convertible bonds of a subsidiary	36	**118,427**	–
Government grants	37	**60,040**	55,763
Deferred tax liabilities	38	**5,397**	4,364
		252,675	480,289
		1,596,209	1,191,230

The consolidated financial statements on pages 36 to 131 were approved and authorised for issue by the board of directors on 28 April 2010 and are signed on its behalf by:

Li Yu Gui
Chairman

Yang Bin
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 (note 1)	Investment revaluation reserves HK$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-redeemable convertible preference shares of a subsidiary HK$'000	Equity component of convertible bonds of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	189,090	418,093	727	11,080	–	–	–	(87,119)	531,871	–	–	86,536	618,407
Profit for the year	–	–	–	–	–	–	–	43,942	43,942	–	–	14,867	58,809
Other comprehensive income for the year	–	–	–	10,942	–	(70,676)	–	–	(59,734)	–	–	(1,925)	(61,659)
Total comprehensive income for the year	–	–	–	10,942	–	(70,676)	–	43,942	(15,792)	–	–	12,942	(2,850)
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	58,734	58,734
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	(13,983)	(13,983)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	91,730	91,730
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(54,208)	(54,208)
Transfer	–	–	–	–	2,417	–	–	(2,417)	–	–	–	–	–
Partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	13,111	13,111
At 31 December 2008 and 1 January 2009	189,090	418,093	727	22,022	2,417	(70,676)	–	(45,594)	516,079	–	–	194,862	710,941

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 (note 1)	Investment revaluation reserves HK$'000	Special capital reserve HK$'000 (note 2)	Accumulated losses HK$'000	Sub-total HK$'000	Non-redeemable convertible preference shares of a subsidiary HK$'000	Equity component of convertible bonds of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2009	189,090	418,093	727	22,022	2,417	(70,676)	–	(45,594)	516,079	–	–	194,862	710,941
Loss for the year	–	–	–	–	–	–	–	(354,239)	(354,239)	–	–	11,754	(342,485)
Other comprehensive income (expense) for the year	–	–	–	(2,411)	–	71,741	–	–	69,330	–	–	10,165	79,495
Total comprehensive income for the year	–	–	–	(2,411)	–	71,741	–	(354,239)	(284,909)	–	–	21,919	(262,990)
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	(6,445)	(6,445)
Issuance of shares (net of transaction cost) *(note 32)*	81,548	164,348	–	–	–	–	-	–	245,896	–	–	–	245,896
Transfer	–	–	–	–	2,956	–	–	(2,956)	–	–	–	–	-
Issue of non-redeemable preference shares of a subsidiary *(note 33)*	–	–	–	–	–	–	(15,769)	–	(15,769)	587,696	–	(4,801)	567,126
Issue of convertible bonds of a subsidiary *(note 36)*	–	–	–	–	–	–	–	–	–	–	84,045	–	84,045
Disposal of subsidiaries/ business *(note 43)*	–	–	–	–	–	–	–	–	–	–	–	(26,583)	(26,583)
Deemed partial disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	31,544	31,544
At 31 December 2009	270,638	582,441	727	19,611	5,373	1,065	(15,769)	(402,789)	461,297	587,696	84,045	210,496	1,343,534

Notes:

1. 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.

2. On 23 October 2009, iMerchants Limited, a non-wholly owned subsidiary of the Group ("iMerchants"), whose shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), issued approximately 2,938,478,000 non-redeemable convertible preference shares with a par value of HK$0.2 each, as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary (note 41). The fair value of the convertible preference shares as at 23 October 2009 amounted to approximately HK$567,126,000, representing HK$0.193 per convertible preference share. The discount of approximately HK$20,570,000, which represented the difference between the fair value of the non-redeemable convertible preference shares as of 23 October 2009 and the par value, is charged to the special capital reserve in the equity of iMerchants.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 **HK$'000**	*2008* *HK$'000*
OPERATING ACTIVITIES		
(Loss) profit before tax	**(334,150)**	65,746
Adjustments for:		
Amortisation of concession intangible assets	**14,864**	16,625
Amortisation of an intangible asset	**10,283**	–
Bad debt directly written off on trade and other receivables	**2,807**	101
Depreciation of property, plant and equipment	**5,872**	4,230
Impairment loss recognised on trade and other receivables	**8,444**	8,311
Impairment loss recognised on goodwill	**98,685**	7,837
Impairment loss on concession intangible assets	**2,222**	–
Change in fair value of convertible bonds	**204,404**	(64,537)
Loss (gain) on disposal of property, plant and equipment	**54**	(57)
Loss on disposal of concession intangible assets	**309**	–
Write down of inventories	**1,682**	1,800
Amortisation of prepaid lease payments	**1,362**	1,164
Finance costs	**14,930**	10,280
Loss on partial disposal of a subsidiary	**–**	140
Gain on deemed partial disposal of a subsidiary	**(21,323)**	–
Share of results of an associate	**(2,183)**	3,265
Net loss on disposal of available-for-sale investments	**22,721**	–
Net gain on disposal of debt 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	**(7,504)**	–
Loss on disposal of a business	**4,760**	–
Discount on acquisition of a business	**–**	(12,443)
Write back of long outstanding payables	**61**	–
Interest income	**(229)**	(2,414)
Operating cash flows before movements in working capital	**28,071**	29,427
Increase in inventories	**(3,998)**	(3,488)
Increase in trade and other receivables	**(25,369)**	(2,526)
Increase in amounts due from customers for contract works	**(10,884)**	–
Decrease in held-for-trading investment	**–**	70,232
Decrease in financial asset at fair value through profit or loss	**–**	19,174
Decrease (increase) in available-for-sales investments	**52,543**	(119,007)
Increase (decrease) in trade and other payables	**18,591**	(10,183)
Increase in amounts due to customers for contract works	**657**	–
Cash from (used in) operations	**59,611**	(16,371)
Income taxes paid	**(7,084)**	(681)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**52,527**	(17,052)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	**2009** **HK$'000**	*2008* *HK$'000*
INVESTING ACTIVITIES			
Net cash (outflow) inflow in respect of the acquisition of an intangible asset through acquisition of a subsidiary	*41*	**(98,890)**	–
Acquisition of concession intangible assets		**(57,421)**	(52,713)
Deposit paid for acquisition of subsidiaries		**(50,901)**	–
Purchase of property, plant and equipment		**(4,036)**	(15,863)
Net cash inflow in respect of the disposal of subsidiaries/business	*43*	**56,369**	–
Refund of (payment for) deposits for potential investment projects		**20,401**	(20,401)
Repayment (advance to) from a minority shareholder of subsidiaries		**1,970**	(941)
Dividend from an associate		**794**	–
Interest received		**229**	2,414
Proceeds from disposals of property, plant and equipment		**555**	963
Proceeds from disposals of concession intangible assets		**34**	–
Net cash (outflow) inflow in respect of the acquisition of subsidiaries/business	*42*	**–**	59,088
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
Repayment from to a related party		**–**	225
Acquisition of prepaid lease payments		**–**	(7,313)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(130,896)**	17,145
FINANCING ACTIVITIES			
Issue of new shares (net of issue expenses)		**245,896**	–
Increase in government grants		**3,766**	2,078
New other loans raised		**4,099**	20,371
Dividend paid to minority shareholder		**(6,445)**	(13,983)
Repayment to minority shareholders of a subsidiary		**(15,451)**	(9,024)
Repayment of bank borrowings and other loans		**(17,852)**	(5,024)
Interest paid		**(7,146)**	(4,948)
Repayment to directors		**–**	(223)
Repayment to related parties		**–**	(216)
Contribution from minority shareholders of subsidiaries		**–**	26,938
Advance from minority shareholders of subsidiaries		**–**	19,649
NET CASH FROM FINANCING ACTIVITIES		**206,867**	35,618
NET INCREASE IN CASH AND CASH EQUIVALENTS		**128,498**	35,711
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**148,642**	108,839
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**717**	4,092
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash and cash held at financial institutions		**277,857**	148,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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.

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 53.

2. BASIS OF PREPARATION

As at 31 December 2009, the Group reported a consolidated loss attributable to owners of the Company of approximately HK$354,239,000 for the year ended 31 December 2009 and had a consolidated net current liabilities of approximately HK$306,617,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2009 giving that the directors of the Company will consider different sources of financing being available.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

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

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("INTs") (herein collectively referred to as ("new and revised HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer Loyalty Programmes
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) – INT 16	Hedges of a Net investment in a Foreign Operation
HK(IFRIC) – INT 18	Transfers of Assets from Customers

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) – Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 7 – Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2009

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

New and revised HKFRSs affecting presentation and disclosure only *(Continued)*

HKFRS 8 – Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKIFRS 1 (Revised)	First time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

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

2 Amendments those are effective for annual periods beginning on or after 1 July 2009 and 1 January, 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 July 2010.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 January 2013.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of *HKAS 39 Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of *HKFRS 9* might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs (2009)*, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to *HKAS 17*, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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 ("Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

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 statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 a 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On 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 a 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 acquisition")

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.

Deemed partial disposal and disposal of subsidiaries

On deemed partial disposal and disposal of subsidiaries, the difference between the carrying values of the underlying assets and liabilities attributable to the interests disposed of, or deemed to be disposed of and the consideration received, if any, is credited or charged to profit or loss, as gain/loss on deemed partial disposal and disposal of interest in subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position 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 profit or loss in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. 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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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 statement of comprehensive income over the period of the land use rights are granted, using the straight-line method.

Construction contracts

Where the outcome of a construction contract (including construction and upgrade services of the infrastructure under a service concession arrangement) can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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.

Financial assets

The Group's financial assets are classified into one of the three categories, including 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 to the net carrying amount on initial recognition.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL represented investment held for trading. 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.

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.

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 end of the reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from 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 FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets including equity securities and debt securities are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each end of the reporting period. 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 affected.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other 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 credit period of 30 to 180 days, 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 trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 other comprehensive income and accumulated investment revaluation reserve. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 excluded 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.

A 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.

Financial liabilities at FVTPL are measured at fair value, with changes at fair value arising on remeasurement 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 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 minority shareholders of subsidiaries, loan from an associate, 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 designated at FVTPL

Convertible bonds issued by the Group (including related embedded derivatives) are designated as FVTPL on initial recognition. At each end of the reporting period 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.

Convertible bonds contain liability and equity components

Convertible bonds issued by group entities that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity component of convertible bonds of a subsidiary.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the respective group entity, will remain in equity component of convertible bonds of a subsidiary until the embedded option is exercised (in which case the balance stated in equity component of convertible bonds of a subsidiary will transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in equity component of convertible bonds of a subsidiary will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Non-redeemable convertible preference shares

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividend is discretionary.

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 other comprehensive income 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 profit or loss 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 recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, 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).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Share options granted to eligible persons

Share options issued in exchange for services are measured at fair values of services received. 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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

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.

Revenue from long-term construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see above).

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.

Revenue from disposal of debt securities are recognised on a trade date basis.

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

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 end of the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 the respective 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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 (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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 retranslated at the rate of exchange prevailing at the end of the reporting period. 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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period 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 with 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2009

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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 consolidated financial statement.

Going concern basis

Although the Group had net current liabilities at the end of the reporting period, 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. Details of liquidity risk are disclosed in note 40.

Building and land use right

Despite the Group has paid the full purchase consideration as detailed in notes 15 and 16, certain of the Group's rights to the use of the building and land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these buildings and land use rights do not impair the value of the relevant properties to the Group.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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 statement of comprehensive income.

5. CRITICAL ACCOUNTING JUDGEMENTS 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 2009, the carrying amount of trade receivables was approximately HK$9,176,000 (2008: HK$16,587,000) (net of impairment loss of approximately HK$5,807,000 (2008: 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 2009, the carrying amounts of other receivables are HK$62,219,000 (2008: HK$86,104,000) (net of impairment loss of HK$14,400,000 (2008: HK$6,931,000)).

Impairment of intangible asset and concession 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 2009, the carrying amounts of intangible asset and concession intangible assets were approximately HK$915,301,000 (2008: nil) and HK$416,718,000 (2008: HK$608,726,000) (net of impairment loss of HK$2,222,000) (2008: nil)) respectively.

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 2009, the carrying amounts of goodwill was approximately HK$250,995,000 (2008: HK$383,347,000) (net of impairment loss of approximately HK$98,685,000 (2008: HK$7,837,000)). Details of impairment testing on goodwill are set out in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Key sources of estimation uncertainty *(Continued)*

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.

Revenue from construction contracts

Revenue from construction contracts of certain water supply and sewage treatment of the Group are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Should there be a change in these estimates, then will be an impact on the amount of contract revenue or contract loss.

Fair value of non-redeemable convertible preference shares

The best evidence of fair value is the published price quotations in an active market. In the absence of such information, the fair value is determined by an independent professional valuer. Such valuation is subject to limitations of the valuation models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including share prices, volatility and the relevant parameters of the valuation model be changed, there would be changes in the fair value of non-redeemable convertible preference shares.

6. TURNOVER

Turnover represents revenue arising from water supply, sewage treatment, water supply related installation and construction, turnover from investments as well as revenue from manufacturing and trading of ceramic sewage materials.

An analysis of the Group's turnover for the year is as follows:

	2009 HK$'000	2008 HK$'000
Provision of water supply	**84,201**	78,547
Water supply related installation and construction revenue	**85,536**	65,942
Sewage treatment	**18,543**	25,285
Water supply and sewage treatment infrastructure construction income	**13,828**	23,744
Interest income from debt securities	**–**	47
Dividends from listed securities	**–**	527
Proceeds from disposal of available-for-sale investments	**113,014**	–
Proceeds from trading of securities *(note)*	**–**	19,132
Proceeds from trading of held-for-trading investments	**–**	61,535
Proceeds from trading of financial assets at fair value through profit or loss	**11,774**	14,282
Revenue from manufacturing and trading of ceramic sewage materials	**8,938**	834
	335,834	289,875

Note:

The amount represented the proceeds from disposal of securities, including unlisted equity and debt securities.

The unlisted equity securities were issued by a private entity incorporated in Japan. During the year ended 31 December 2008, the Group disposed of unlisted equity securities with carrying amount of HK$10,500,000, which had been carried at cost less impairment before the disposal. No gain or loss arised from the disposal.

The unlisted debt securities, with fixed interest of 5.4% and maturity date on 20 June 2008, are measured at fair value which determined by reference to the quoted prices provided by the financial institutions. During the year ended 31 December 2008, the Group disposed of unlisted debt securities at considerations of approximately HK$8,632,000 of which the net gain on disposal of debt securities amounted to HK$1,142,000.

7. SEGMENT INFORMATION

The Group has adopted *HKFRS 8 Operating Segments* with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker who are directors of the Company, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (*HKAS 14 Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e. (a) provision of water supply and sewage treatment; (b) construction of water supply and sewage treatment infrastructure; (c) investment in financial and investment products; (d) trading of watches and accessories; and (e) Others). However, information reported to the chief operating decision maker is more specifically focused on the category of customer for each type of goods and services. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

(a)	Provision of water supply and sewage treatment as well as construction services	Provision of water supply and sewage treatment and construction of water supply and sewage treatment infrastructure
(b)	Investments in financial products	Investments in financial and investment products
(c)	All others	Mainly represents manufacturing and trading of ceramic sewage materials and others

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

7. SEGMENT INFORMATION *(Continued)*

Segment information about these businesses is presented below:

Segment Revenue and Results

For the year ended 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
SEGMENT REVENUE								
Sales to external customers	**202,108**	193,518	**–**	574	**8,938**	834	**211,046**	194,926
SEGMENT RESULTS	**(31,739)**	34,019	**(10,126)**	10,238	**(34,241)**	(331)	**(76,106)**	43,926
Unallocated corporate income and expenses							**(258,044)**	21,820
(Loss) profit before tax							**(334,150)**	65,746

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, changes in fair value of convertible bonds, directors' and supervisors' salaries, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. SEGMENT INFORMATION *(Continued)*

Segment Revenue and Results *(Continued)*

For the year ended 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
OTHER SEGMENT INFORMATION:								
Amounts included in the measure of segment profit or loss or segment asset:								
Addition to non-current assets *(note)*	**60,011**	127,211	**4**	141	**1,442**	2,056	**61,457**	129,408
Interests in an associate	**57,853**	55,783	**–**	–	**–**	–	**57,853**	55,783
Share of results of an associate	**(2,183)**	3,265	**–**	–	**–**	–	**(2,183)**	3,265
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**6,883**	5,223	**37**	73	**314**	98	**7,234**	5,394
Amortisation of concession intangible assets	**14,864**	16,625	**–**	–	**–**	–	**14,864**	16,625
Amortisation of intangible asset	**–**	–	**10,283**	–	**–**	–	**10,283**	–
Bad debt directly written off on trade and other receivables	**2,807**	101	**–**	–	**–**	–	**2,807**	101
Write down of inventories (included in cost of sales)	**1,682**	1,800	**–**	–	**–**	–	**1,682**	1,800
Gain on disposal of subsidiaries	**(7,504)**	–	**–**	–	**–**	–	**(7,504)**	–
Loss on disposal of a business	**4,760**	–	**–**	–	**–**	–	**4,760**	–
Net loss on disposal of available-for-sale investments	**–**	–	**22,721**	–	**–**	–	**22,721**	–
Net gain on disposal of debt securities	**–**	–	**–**	(1,142)	**–**	–	**–**	(1,142)
Net gain on disposal of listed trading securities	**–**	–	**(1,729)**	(5,531)	**–**	–	**(1,729)**	(5,531)
Increase in fair values of financial assets at fair value through profit or loss	**–**	–	**–**	(2,620)	**–**	–	**–**	(2,620)
Impairment loss on trade and other receivables	**1,952**	8,311	**–**	–	**772**	–	**2,724**	8,311
Loss (gain) on disposal of property, plant and equipment	**54**	(57)	**–**	–	**–**	–	**54**	(57)
Impairment loss on goodwill	**66,069**	7,837	**–**	–	**32,616**	–	**98,685**	7,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. SEGMENT INFORMATION *(Continued)*

Segment Revenue and Results *(Continued)*

For the year ended 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Loss on partial disposal of a subsidiary	**–**	–	**–**	140	**–**	–	**–**	140
Discount on acquisition of a business	**–**	(12,443)	**–**	–	**–**	–	**–**	(12,443)
Gain on deemed partial disposal of a subsidiary	**–**	–	**(21,323)**	–	**–**	–	**(21,323)**	–
Impairment loss recognised on concession intangible assets	**2,222**	–	**–**	–	**–**	–	**2,222**	–
Amounts regularly provided to the chief operation decision maker but not included in measure of segment profit or loss or segment assets:								
Interest income	**(218)**	(1,266)	**(9)**	(1,145)	**(2)**	(3)	**(229)**	(2,414)
Finance costs	**11,993**	9,260	**2,472**	963	**465**	57	**14,930**	10,280
Income tax expense	**8,222**	6,937	**–**	–	**113**	–	**8,335**	6,937
Change in fair value of convertible bonds	**–**	-	**204,404**	(64,537)	**–**	–	**204,404**	(64,537)
Impairment loss on other receivables	**5,720**	–	**–**	–	**–**	–	**5,720**	–

Note: Non-current assets exclude financial instruments, intangible asset, goodwill and deposit paid for acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. SEGMENT INFORMATION *(Continued)*

Segment Assets and Liabilities

As at 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets								
Segment assets	**864,420**	1,231,849	**1,247,145**	134,002	**29,070**	60,058	**2,140,635**	1,425,909
Unallocated segment assets							**140,017**	159,036
Consolidated total assets							**2,280,652**	1,584,945
Liabilities								
Segment liabilities	**192,306**	261,365	**–**	–	**3,438**	898	**195,744**	262,263
Unallocated segment liabilities							**741,374**	611,741
Consolidated total liabilities							**937,118**	874,004

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments, other than deposit paid for acquisition of subsidiaries, amount due from a minority shareholder of a subsidiary, bank balances and cash and assets which are not able to allocate into reportable segments.

- all liabilities are allocated to reportable segments, other than bank borrowings, other loans, amounts due to minority shareholders of subsidiaries, tax payables, loan from an associate, convertible bonds, convertible bonds of a subsidiary, deferred tax liabilities, and liabilities which are not able to allocate into reportable segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. SEGMENT INFORMATION *(Continued)*

Geographical information

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

	2009	2008
	HK$'000	*HK$'000*
Europe	–	15,078
The PRC, Hong Kong and Taiwan	**335,834**	193,599
North America	–	48,579
Australia	–	10,729
Japan	–	10,269
Asia Pacific (other than Japan)	–	8,263
Others	–	3,358
	335,834	289,875

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

Information about major customers

For the year ended 31 December 2009 and 2008, the Group does not have any single significant customer with the transaction value over 10% of the turnover.

8. OTHER OPERATING INCOME

	2009	2008
	HK$'000	*HK$'000*
Handling charges	**746**	250
Interest income	**229**	2,414
Gain on disposal of property, plant and equipment	–	57
Gain on disposal of convertible bond receivables	–	1,328
Write back of long outstanding payables	**61**	–
Government subsidies *(note)*	–	1,910
Penalty income	**643**	532
Others	**3,706**	2,970
	5,385	9,461

Note: 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 (2009: Nil).

9. FINANCE COSTS

	2009 *HK$'000*	2008 *HK$'000*
Interest on:		
– Interest on convertible bonds	**963**	963
– Imputed interest expenses on convertible bonds of a subsidiary *(note 36)*	**2,472**	–
– Bank borrowings wholly repayable within five years	**2,628**	2,470
– Bank borrowings wholly repayable more than five years	**1,762**	2,770
– Other loans wholly repayable within five years	**5,214**	2,130
– Other loans wholly repayable more than five years	**1,394**	1,298
– Amounts due to minority shareholders of subsidiaries	**278**	361
– Loan from an associate	**219**	288
	14,930	10,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. (LOSS) PROFIT BEFORE TAX

	2009 HK$'000	2008 HK$'000
(Loss) profit before tax has been arrived at after charging:		
Amortisation of prepaid lease payments	**1,362**	1,164
Amortisation of concession intangible assets (included in cost of sales)	**14,864**	16,625
Amortisation of an intangible asset	**10,283**	–
Auditors' remuneration	**960**	930
Bad debts directly written off on trade receivables	**–**	101
Bad debts directly written off on other receivables	**2,807**	–
Cost of inventories recognised as expenses	**25,026**	20,187
Depreciation of property, plant and equipment	**5,872**	4,230
Impairment loss on concession intangible assets	**2,222**	–
Write down of inventories (included in cost of sales)	**1,682**	1,800
Loss on partial disposal of a subsidiary	**–**	140
Loss on disposal of concession intangible assets	**309**	–
Loss on disposal of property, plant and equipment	**54**	–
Minimum lease payment under operating leases	**3,580**	3,020
Net exchange loss	**94**	953
Staff costs excluding directors' emoluments		
– Salaries, wages and other benefits	**37,085**	33,211
– Retirement benefits scheme contributions	**6,120**	5,308
Total staff costs	**43,205**	38,519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

The emolument paid or payable to each of the 13 (2008: 14) directors were as follows:

For the year ended 31 December 2009

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Li Yu Gui	–	390	26	416
Yang Bin	–	391	12	403
Zhong Wen Sheng[1]	–	546	–	546
Liu Bai Yue	–	468	12	480
Shi De Mao[2]	–	86	–	86
Chu Yin Yin, Georgiana	–	546	12	558
Li Wen Jun[3]	–	210	7	217
Liu Peng Cheng[2]	–	–	–	–
	–	2,637	69	2,706
Non-executive directors:				
Huang Yuan Wen[4]	–	36	–	36
Pan Shi Ying[4]	–	36	–	36
	–	72	–	72
Independent non-executive directors:				
Chang Kin Man	120	–	–	120
Wu Tak Lung	144	–	–	144
Gu Wen Xuan	120	–	–	120
	384	–	–	384
Total	384	2,709	69	3,162

1. Resigned on 4 January 2010
2. Resigned on 31 May 2009
3. Appointed on 3 June 2009
4. Resigned on 10 June 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2008

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	Total
	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(a) Directors' emoluments *(Continued)*

There was no arrangement under which directors waived or agreed to waive any emoluments during the two years ended 31 December 2009.

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

(b) Employees' emoluments

Details of the five highest paid individuals included four (2008: four) directors whose emoluments are set out in (a) above. The emolument of the remaining one (2008: one) highest paid individual was as follow:

	2009	2008
	HK$'000	*HK$'000*
Salaries, allowance and benefits in kind	**578**	382
Retirement benefits scheme contributions	**12**	12
	590	394

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 2009.

12. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
PRC Enterprise Income Tax ("EIT")		
– Current	**6,203**	3,987
– Under provision in prior years	**294**	–
	6,497	3,987
Deferred tax *(note 38)*	**1,838**	2,950
	8,335	6,937

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. No tax is payable on the profit for the year ended 31 December 2009 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

12. INCOME TAX EXPENSE *(Continued)*

Hong Kong Profits Tax has not been provided for in the consolidated financial statements for the year ended 31 December 2008 as there was no estimated assessable profit derived.

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

Under the Law of the EIT and Implementation Regulation of the Law of the EIT, the tax rate of the other PRC subsidiaries is at 25% from 1 January 2008 onwards.

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

	2009 ***HK$'000***	2008 *HK$'000*
(Loss) profit before tax	**(334,150)**	65,746
Tax at the domestic income tax rate of 25% (2008: 25%)	**(83,538)**	16,436
Tax effect of share of results of an associate	**(546)**	816
Tax effect of expenses not deductible for tax purpose	**74,293**	14,783
Tax effect of income not taxable for tax purpose	**(5,547)**	(15,587)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**22,618**	(5,409)
Effect of tax exemption granted to PRC subsidiaries	**(1,824)**	(7,550)
Tax effect of deductible temporary differences not recognised	**2,065**	2,127
Utilisation of tax losses previously not recognised	**(221)**	–
Under provision for taxation in prior years	**294**	–
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries from 1 January 2008 onwards	**741**	1,321
Income tax expense for the year	**8,335**	6,937

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. (LOSS) EARNINGS PER SHARE

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

	2009	2008
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share ((loss) earnings for the year attributable to owners of the Company)	**(354,239)**	43,942
Effect of dilutive potential shares:		
– interest on convertible bonds	**963**	963
– change in fair value of convertible bonds	**204,404**	(64,537)
(Loss) profit for the purposes of diluted (loss) earnings per share	**(148,872)**	(19,632)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,259,686**	1,890,900
Effect of dilutive potential shares:		
– share options issued by the Company *(note)*	**–**	–
– conversion of convertible bonds	**338,908**	338,908
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,598,594**	2,229,808

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 of shares for the years ended 31 December 2009 and 2008.

Diluted loss per share was same as the basic loss per share for the year ended 31 December 2009, as the effect of the conversion of the Company's outstanding share options and convertible bonds as well as the outstanding convertible bonds and non-redeemable preference shares issued by iMerchants was anti-dilutive for the year ended 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Water pipeline HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2008	14,434	1,017	4,486	4,688	22,281	10,464	57,370
Acquired on acquisition of subsidiaries/business	18,438	737	3,795	1,373	22,810	12,488	59,641
Additions	9,910	417	1,207	3,810	161	2,338	17,843
Transfers	10,259	–	–	–	29	(10,288)	–
Disposals	(405)	(134)	(724)	(523)	–	–	(1,786)
Exchange realignment	1,040	12	73	288	1,419	19	2,851
At 31 December 2008	53,676	2,049	8,837	9,636	46,700	15,021	135,919
Additions	125	763	674	959	116	1,399	4,036
Transfers	3,198	–	39	–	–	(3,237)	–
Disposals	(170)	(17)	(54)	(196)	(252)	–	(689)
Disposal of subsidiaries/ business	(18,212)	(2,420)	(5,756)	(1,176)	–	(60)	(27,624)
Exchange realignment	172	33	19	81	417	102	824
At 31 December 2009	**38,789**	**408**	**3,759**	**9,304**	**46,981**	**13,225**	**112,466**
ACCUMULATED DEPRECIATION							
At 1 January 2008	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
Provided for the year	1,687	166	592	1,609	1,818	–	5,872
Eliminated on disposals	–	–	(44)	(36)	–	–	(80)
Disposal of subsidiaries/ business	(660)	(394)	(1,273)	(184)	–	–	(2,511)
Exchange realignment	12	3	3	9	22	–	49
At 31 December 2009	**2,597**	**27**	**673**	**2,391**	**3,614**	**–**	**9,302**
CARRYING VALUES							
At 31 December 2009	**36,192**	**381**	**3,086**	**6,913**	**43,367**	**13,225**	**103,164**
At 31 December 2008	52,118	1,797	7,442	8,643	44,926	15,021	129,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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 to 25 years

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

As at 31 December 2009, the property usage permits of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately HK$3,150,000 (2008: HK$3,223,000). In the opinion of the directors of the Company, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group. The directors of the Company also believe that property usage permits to these buildings will be granted to the Group in due course.

The Group has pledged buildings with carrying amount of approximately HK$2,186,000 (2008: HK$5,636,000) to secure the bank and other borrowings granted to the Group.

16. PREPAID LEASE PAYMENTS

	2009 HK$'000	2008 HK$'000
COST		
At 1 January	79,554	10,501
Acquired on acquisition of subsidiaries/businesses	–	51,032
Addition	–	17,034
Disposal of subsidiaries/business	(33,889)	–
Exchange realignment	361	987
At 31 December	46,026	79,554
ACCUMULATED AMORTISATION		
At 1 January	1,317	137
Provided for the year	1,362	1,164
Eliminated on disposals of subsidiaries/business	(699)	–
Exchange realignment	11	16
At 31 December	1,991	1,317
CARRYING VALUES		
At 31 December	44,035	78,237

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:

	2009 HK$'000	2008 HK$'000
Current assets	1,181	1,794
Non-current assets	42,854	76,443
	44,035	78,237

At 31 December 2009, legal titles to land use rights with carrying values of HK$14,440,000 (2008: HK$47,958,000) 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.

As at 31 December 2009, the Group had pledged prepaid lease payments with carrying amount of approximately HK$12,881,000 (2008: HK$10,908,000) to secure bank and other borrowings granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. CONCESSION INTANGIBLE ASSETS

	Total *HK$'000*
COST	
At 1 January 2008	194,830
Acquired on acquisition of subsidiaries/business	325,353
Additions	94,531
Exchange realignment	14,453
At 31 December 2008	629,167
Additions	57,421
Disposals	(373)
Disposal of subsidiaries/business	(244,371)
Exchange realignment	3,698
At 31 December 2009	**445,542**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2008	3,476
Provided for the year	16,625
Exchange realignment	340
At 31 December 2008	20,441
Provided for the year	14,864
Eliminated on disposal	(30)
Disposal of subsidiaries/business	(8,957)
Impairment loss recognised during the year	2,222
Exchange realignment	284
At 31 December 2009	**28,824**
CARRYING VALUES	
At 31 December 2009	**416,718**
At 31 December 2008	608,726

17. CONCESSION INTANGIBLE ASSETS *(Continued)*

During the year, the directors of the Company identified that some of the Group's concession intangible assets were impaired due to adverse market changes in the industries. Accordingly, impairment loss of approximately HK$2,222,000 has been recognised in concession intangible assets, which are used in the Group's reportable segment of provision of water supply and sewage treatment as well as construction services. The recoverable amounts of the concession intangible assets have been determined by using value-in-use calculation by reference to the valuation performed by Asset Appraisal Limited ("Asset Appraisal"), a qualified valuer not connected with the Group. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year periods, and discount rate of 12.55%. Cash flows beyond the 5 year periods have been extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

(a) The subsidiaries of the Group, Yichun Water Industry Co. Limited ("Yichun Water"), Linyi Fenghuang Water industry Co., Ltd ("Linyi Fenghuang"), Danzhou Qingyuan Water Industry Company Limited ("Danzhou Qingyuan") and Yingtan Water Supply Co., Ltd ("Yingtan Water Supply") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of a water supply plant and was granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant.

(b) The subsidiaries of the Group, Yichun Fangke Sewage Treatment Company Limited ("Yichun Fangke") and Jining City Haiyuan Water Treatment Company Limited ("Jining Haiyuan") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of a waste treatment plant and was granted with an exclusive operating right for provision of waste treatment services to the public users for a period ranging from 25 to 29 years, commencing from the operation of the respective waste treatment plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights, ranging from 25 to 30 years, since commencement of operations. The receipt from these service concession arrangement, are contingent on the extent that public uses the services.

As at 31 December 2009, the Group had pledged concession intangible assets with carrying amount of approximately HK$19,392,000 (2008: HK$19,575,000) to secure bank borrowings granted to the Group.

18. INTANGIBLE ASSET

	HK$'000
COST	
At 1 January 2008 and 31 December 2008	–
Acquired through acquisition of subsidiary	925,584
At 31 December 2009	**925,584**
ACCUMULATED AMORTISATION	
At 1 January 2008 and 31 December 2008	–
Provided for the year	10,283
At 31 December	10,283
CARRYING VALUES	
At 31 December 2009	**915,301**
At 31 December 2008	–

The intangible asset represented the exclusive right which derived from a management agreement ("Management Agreement") to receive management fee equivalent to 70% of the net profits of Shenzhen Careall Capital Investment Co., Ltd ("Careall Capital"), a company established in the PRC and being an independent third party of the Group. Under the Management Agreement, Careall Capital shall irrevocably and unconditionally warrant, guarantee and undertake to and with Supreme Luck International Limited ("Supreme Luck") that the net profits during the one-year period commencing from the date of the Management Agreement shall not be less than approximately HK$113,380,000 (equivalent to RMB100,000,000); the second one-year period commencing from the date of the Management Agreement shall not less than approximately HK$170,070,000 (equivalent to RMB150,000,000); and the third one-year period commencing from the date of the Management Agreement shall not less than approximately HK$226,760,000 (equivalents to RMB200,000,000). Careall Capital is principally engaged in venture investment, venture investment advisory and management services, with the objective of investment in the equities of the new technology-based enterprises in the PRC. The exclusive right was acquired through the acquisition of the entire issued share capital of Supreme Luck during the year ended 31 December 2009. Details of which are set out in note 41.

The intangible asset are amortised on straight-line basis over its estimated useful lives of 15 years.

19. GOODWILL

	Provision of water supply and sewage treatment *HK$'000*	Investments in financial products *HK$'000*	Others *HK$'000*	Total *HK$'000*
COST				
At 1 January 2008	77,333	–	–	77,333
Arising on acquisition of subsidiaries	207,291	45,614	49,569	302,474
Arising on acquisition of additional interests in a subsidiary	–	15,176	–	15,176
Released in a partial disposal of a subsidiary	–	(3,799)	–	(3,799)
At 31 December 2008	284,624	56,991	49,569	391,184
Released in a deemed partial disposal of interest in a subsidiary	–	(5,580)	–	(5,580)
Released in disposal of subsidiaries *(note 43)*	(35,924)	–	–	(35,924)
At 31 December 2009	**248,700**	**51,411**	**49,569**	**349,680**
IMPAIRMENT				
At 1 January 2008	–	–	–	–
Impairment loss recognised in the year	7,837	–	–	7,837
At 31 December 2008	7,837	–	–	7,837
Released in disposal of subsidiaries *(note 43)*	(7,837)	–	–	(7,837)
Impairment loss recognised during the year	66,069	–	32,616	98,685
At 31 December 2009	**66,069**	**–**	**32,616**	**98,685**
CARRYING VALUES				
At 31 December 2009	**182,631**	**51,411**	**16,953**	**250,995**
At 31 December 2008	276,787	56,991	49,569	383,347

19. GOODWILL *(Continued)*

Impairment Testing On Goodwill

Goodwill was allocated to three individual cash generating units ("CGU"), including provision of water supply and sewage treatment, investments in financial products and others.

Goodwill from acquisition of Blue Mountain Hong Kong Group Limited ("Blue Mountain"), Danzhou Lian Shun Tong Water Pipe Company Limited* ("Danzhou Lian Shun Tong"), Onfar International Limited ("Onfar"), Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan"), and Anhui Dang Shan Water Industry Company Limited* ("Anhui Dang Shan") was allocated to the CGU of provision of water supply and sewage treatment. Goodwill from acquisition of iMerchants was allocated to the CGU of investments in financial products. Goodwill from acquisition of Plenty One Limited ("Plenty One") was allocated to the CGU of others.

During the year ended 31 December 2009, the Group recognised an impairment loss with an aggregate amount of HK$98,685,000 (2008: HK$7,837,000) in relation to goodwill arising on acquisition of Danzhou Lian Shun Tong, Onfar, Jining Haiyuan, Anhui Dang Shan and Plenty One which are allocated to the CGUs of provision of water supply and sewage treatment and investment products and others.

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Water supply and sewage treatment

The recoverable amount of this CGU has been determined on the basis of value-in-use calculation with reference to a valuation performed by Asset Appraisal. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year periods, and discount rate of 12.55% (2008: 12.14%). Cash flows beyond the 5 year periods have been extrapolated using a steady 3% (2008: 3%) growth rate. This growth rate is based 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 that the recoverable amount is less than its respective carrying amount as at 31 December 2009, accordingly an impairment loss of approximately HK$66,069,000 (2008: HK$7,837,000) was recognised.

Investment in financial 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 12.92% (2008: 12.14%). Cash flows beyond the 5 year periods have been extrapolated using a steady 3% (2008: 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 Grant Sherman Appraisal Limited, a qualified valuer not connected with the Group, that the recoverable amount of this CGU exceeds it carrying amount in the consolidated statement of financial position and no impairment loss of goodwill is necessary. The directors of the Company were of the opinion, based on the Forecast, that the recoverable amount exceeds its carrying amount in the consolidated statement of financial position and no impairment loss was necessary.

19. GOODWILL *(Continued)*

Others

The recoverable amount of this CGU has been determined on the basis of value-in-use calculation with reference to a valuation performed by Asset Appraisal. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year periods, and discount rate of 17.58% (2008: 12.14%). Cash flows beyond the 5 year periods have been extrapolated using a steady 3% (2008: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2009 ***HK$'000***	2008 *HK$'000*
Available-for-sale investments comprise:		
– Equity securities listed in Hong Kong	**65,040**	59,519

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

21. INTEREST IN AN ASSOCIATE

	2009 ***HK$'000***	2008 *HK$'000*
Unlisted associate in the PRC	**52,794**	52,794
Share of post-acquisition results and other comprehensive income, net of dividends received	**5,059**	2,989
	57,853	55,783

As at 31 December 2009 and 2008, the Group had equity 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
Jinan Hongquan Water Production Co., Ltd 濟南泓泉制水有限公司 ("Jinan Hongquan")	Incorporated	PRC	35%	Provision of water supply

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. INTEREST IN AN ASSOCIATE *(Continued)*

The summarised financial information in respect of the Group's associate as at the end of the reporting period is set out below:

	2009 ***HK$'000***	2008 *HK$'000*
Total assets	**338,569**	369,371
Total liabilities	**(173,274)**	(209,992)
Net assets	**165,295**	159,379
Group's share of net assets of associate	**57,853**	55,783
Revenue	**273,921**	245,178
Profit (loss) for the year	**6,238**	(11,941)
Group's share of results of associate for the year	**2,183**	(3,265)

During the year ended 31 December 2008, the Group increased its investment costs of HK$15,584,000 in an associate, Shangqiu Zhengyuan Water industry Company Limited* ("Shangqiu Zhenyuan"). After the capital injection, Shangqiu Zhenyuan became a subsidiary of the Group. During the year ended 31 December 2008, the Group's share of loss of Shangqiu Zhenyuan recognised in the consolidated statement of comprehensive income amounted to approximately of HK$4,065,000.

22. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

On 18 September 2009, Swift Surplus Holdings ("Swift Surplus"), a wholly-owned subsidiary of the Group, entered into an agreement with independent third parties, Sihui South China Waterworks Development Co., Ltd.* (四會市華南水務發展有限公司), Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司) and Da Xin Waterworks management (Huizhou) Co., Ltd.* (達信水務管理（惠州）有限公司), pursuant to which Swift Surplus has conditionally agreed to acquire 70% of the registered capital of Foshan City Gaoming Huaxin Sewage treatment Company Ltd.* (佛山市高明區華信污水處理有限公司); 70% of the registered capital of Tangshan City Hongxiang Waterworks Limited* (唐山市鴻翔水務有限公司) and 100% equity interests in Boluo phase II Project Company (博羅二期項目公司), respectively, at a total consideration of HK$170,000,000. As at 31 December 2009, the Group has paid HK$50,901,000 as a deposit for the acquisition and the remaining amount will be paid upon the completion of the transaction. Details of this transaction are stated in the Company's announcement dated 20 September 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

23. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**228**	98
Finished goods	**13,076**	12,784
	13,304	12,882

24. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables	**14,983**	21,341
Less: impairment loss recognised	**(5,807)**	(4,754)
	9,176	16,587
Other receivables	**76,619**	93,035
Less: impairment loss recognised	**(14,400)**	(6,931)
Deposits and prepayments	**3,205**	3,219
	74,600	105,910

As at 31 December 2009, included in other receivables is amount due from Construction Bureau of Yingtan City (鷹潭市建設局) amounting to approximately HK$22,770,000 (equivalent to RMB20,000,000) (2008: HK$22,901,000) which are unsecured and repayable on demand. As at 31 December 2008, included in other receivables were refundable deposit paid for potential investment projects with an amount of HK$20,401,000, the amounts have been refunded during the year ended 31 December 2009.

The Group allows an average credit period of 30 days to 180 days given to its customers.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

An aged analysis of the trade receivables net of impairment loss recognised as at the end of the reporting period, based on invoice date was as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**3,537**	10,760
91 to 180 days	**4,889**	5,192
181 to 365 days	**710**	511
Over 1 year	**40**	124
	9,176	16,587

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$1,858,000 (2008: HK$1,593,000) which were past due at the end of the reporting period and for which the Group has not provided for impairment loss. Ageing of trade receivables which are past due but not impaired:

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**939**	942
91 to 180 days	**169**	16
181 to 365 days	**710**	511
Over 1 year	**40**	124
Total	**1,858**	1,593

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. The Group does not hold any collateral over these balances.

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.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**4,754**	2,093
Recognised during the year	**1,006**	2,526
Arising on acquisition of subsidiaries	**–**	10
Exchange realignment	**47**	125
Balance at end of the year	**5,807**	4,754

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$5,807,000 (2008: HK$4,754,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

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

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	**6,931**	1,084
Recognised during the year	**7,438**	5,785
Amounts written off as uncollectible	**(10)**	–
Exchange realignment	**41**	62
Balance at end of the year	**14,400**	6,931

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$14,400,000 (2008: HK$6,931,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

During the year ended 31 December 2009, other receivables with an amount of HK$2,807,000 (2008: nil) was written off directly due to the directors of the Company considered the recovery of the respective debtors were remote and irrecoverable.

25. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due from a minority shareholder of a subsidiary was unsecured, interest-free and the amount has been fully settled during the year ended 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Cash held at financial institutions represents amounts of approximately HK$212,474,000 (2008: HK$13,170,000) deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2008: 0.2555% to 6.57%) per annum.

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.

27. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the end of reporting period, based on invoice date:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**5,067**	3,110
31 to 90 days	**1,907**	1,232
91 to 180 days	**555**	1,946
181 to 365 days	**587**	1,050
Over 1 year	**2,464**	21,912
	10,580	29,250
Other payables	**61,323**	118,221
Interest payables	**67,056**	61,744
	138,959	209,215

There was no specific credit period for payment granted by suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the timeframe agreed with the respective suppliers.

As at 31 December 2009, included in other payables with an amount of HK$1,100,000 (2008: Nil) was the deferred consideration payable arising from the acquisition of an intangible asset through acquisition of a subsidiary (note 41). The amount is required to settle within 6 months since the completion date of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	2009 *HK$'000*	2008 *HK$'000*
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits to date	**24,222**	–
Less: progress billings	**(13,995)**	–
	10,227	–
Analysed for reporting purposes as:		
Amounts due from contract customers	**10,884**	–
Amounts due to contract customers	**(657)**	–
	10,227	–

At 31 December 2009, there were no retentions held by customers for contract work (2008: Nil).

29. BANK BORROWINGS

	2009 *HK$'000*	2008 *HK$'000*
Secured loans	**56,926**	59,792
Carrying amount repayable:		
On demand overdue balances *(notes (ii))*	**29,601**	29,332
On demand or within one year	**3,416**	3,384
More than one year but not exceeding two years	**3,417**	3,385
More than two years but not more than five years	**10,246**	10,153
More than five years	**10,246**	13,538
	56,926	59,792
Less: Amount due within one year shown under current liabilities	**(33,017)**	(32,716)
Amount due after one year	**23,909**	27,076

29. BANK BORROWINGS *(Continued)*

Notes:

(i) As at 31 December 2009, included in bank borrowings of approximately HK$27,325,000 (equivalent to RMB24,000,000) (2008: HK$30,460,000, equivalent to RMB27,000,000) which carries interest at Peoples' Bank of China Base Lending Rate plus 10% per annum and secured by a pledge over the subsidiary's revenue from the provision of sewage treatment.

(ii) As at 31 December 2009, in respect of bank borrowings with carrying amounts of approximately HK$29,601,000 (equivalent to RMB26,000,000) (2008: HK$29,332,000, equivalent to RMB26,000,000) borrowed from Agricultural Bank of China, Danzhou Branch, are overdue and are classified as current liabilities (the "Overdue Loans"). The Overdue Loans were arisen from the acquisition of a business on 31 March 2008 (note 42). The Overdue Loans are secured floating-rate borrowings which carry interest at the People's Bank of China Base Lending Rate. 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. On 26 June 2008, Agricultural Bank of China, Danzhou Branch had filed a claim against the Group for the repayment of the bank borrowings together with the interests thereon. On 13 November 2009, a verdict was issued by the Intermediate People's Court of Hainan (the "Court"), the Group is ordered to fully pay the said bank borrowings together with the interests thereon. Details are set out in note 51.

30. OTHER LOANS

	2009 **HK$'000**	2008 HK$'000
Other loans comprises of:		
Government loans	**70,062**	70,389
Overdue loans *(note iii)*	**4,554**	5,802
Loans from independent companies and non-bank institutions	**4,099**	12,144
	78,715	88,335
Analysed as:		
Secured	**6,831**	5,802
Unsecured	**71,884**	82,533
	78,715	88,335
Carrying amount repayable:		
On demand overdue loans	**4,554**	5,802
On demand or within one year	**29,259**	36,593
More than one year but not exceeding two years	**9,108**	6,461
More than two years but not more than five years	**24,431**	24,825
More than five years	**11,363**	14,654
	78,715	88,335
Less: Amount due within one year shown under current liabilities	**(33,813)**	(42,395)
Amount due after one year	**44,902**	45,940

Notes:

(i) As at 31 December 2009, government loans of approximately HK$59,725,000 (2008: HK$59,181,000), HK$9,148,000 (2008: HK$10,029,000) and HK$1,189,000 (2008: HK$1,179,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 2.28% to 5% (2008: 2.28% to 5%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum for the two years ended 31 December 2009. The government loans are repayable ranging from within one year to twelve years.

(ii) At 31 December 2009, loans from independent companies and non-bank institutions and overdue loans with an aggregate amount of approximately HK$8,653,000 (2008: HK$17,946,000) are fixed-rate borrowings carry interest ranging from 6% to 21.970% (2008: 6.048% to 21.970%) per annum.

(iii) At 31 December 2009, overdue loans with carrying amounts of approximately HK$4,554,000 (equivalent to RMB4,000,000) (2008: HK$5,802,000) and interest payable (included in interest payables) of approximately HK$12,140,000 (2008: HK$11,039,000) are overdue and are classified as current liabilities. Up to the date of the issue of the consolidated financial statements, the Group is still in progress to negotiate with the lenders for the purpose of reaching a debt restructuring arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Carrying amounts analysed as follows:

	2009 *HK$'000*	2008 *HK$'000*
Within one year	**8,258**	105,802
More than one year but not exceeding two years	**–**	10,051
More than two years but not more than five years	**–**	25,640
More than five years	**–**	45,736
	8,258	187,229
Less: Amount due within one year shown under current liabilities	**(8,258)**	(105,802)
Amount due after one year	**–**	81,427

The amounts are unsecured, other than an amount of approximately HK$2,457,000 (2008: HK$2,256,000) included in amounts due within one year carries interest at 14.88% (2008: 14.88%) per annum, the remaining amounts are interest-free.

32. SHARE CAPITAL

	2009 Number of shares	**2009** Amount *HK$'000*	2008 Number of shares	2008 Amount *HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each				
At the beginning of the year	**4,000,000,000**	**400,000**	4,000,000,000	400,000
Increase during the year *(note 1)*	**4,000,000,000**	**400,000**	–	–
	8,000,000,000	**800,000**	4,000,000,000	400,000
Convertible preference shares of HK$0.1 each *(note 1)*	**2,000,000,000**	**200,000**	–	–
	10,000,000,000	**1,000,000**	4,000,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each				
At the beginning of the year	**1,890,900,000**	**189,090**	1,890,900,000	189,090
Issue of shares *(note 2)*	**815,479,000**	**81,548**	–	–
At the end of the year	**2,706,379,000**	**270,638**	1,890,900,000	189,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

32. SHARE CAPITAL *(Continued)*

Note:

(1) Pursuant to an ordinary resolution passed at the annual general meeting held on 29 June 2009, the Company's authorised share capital was increased from HK$400,000,000 to HK$1,000,000,000 by the creating of 4,000,000,000 ordinary shares of HK$0.1 each and 2,000,000,000 convertible preference shares of HK$0.1 each.

(2) On 19 June 2009, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 365,000,000 new ordinary shares of HK$0.1 each in the Company at a price of HK$0.33 per share. A sum of net amount approximately HK$116,910,000 was raised and used as working capital of the Group.

On 6 August 2009, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 450,479,000 new ordinary shares of HK$0.1 each in the Company at a price of HK$0.295 per share. A sum of net amount approximately HK$128,990,000 was raised and used as working capital of the Group.

All new shares issued during the year ended 31 December 2009 rank pari passu in all respects with other shares in issue.

33. NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES OF A SUBSIDIARY

	Number of shares *'000*	Amount *HK$'000*
Authorised:		
At 1 January 2008, 31 December 2008 and 1 January 2009		
Non-redeemable convertible preference shares of HK$0.2 each	4,000,000	800,000
Subdivision of share of HK$0.2 each into five shares of HK$0.04 each *(note)*	16,000,000	–
At 31 December 2009, HK$0.04 each	**20,000,000**	**800,000**
Issued and fully paid:		
At 1 January 2008, 31 December 2008 and 1 January 2009	–	–
Issue of preference shares of a subsidiary, HK$0.2 each	2,938,478	587,696
Subdivision of share of HK$0.2 each into five shares of HK$0.04 each *(note)*	11,753,912	–
At 31 December 2009, HK$0.04 each	**14,692,390**	**587,696**

Note: Pursuant to an ordinary resolution passed by the iMerchants' shareholders at an extraordinary general meeting held on 30 October 2009, the existing issued and unissued for both ordinary and non-redeemable convertible preference shares of HK$0.2 each in the share capital of iMerchants are subdivided into 5 shares of HK$0.04 each. The authorised share capital of iMerchants was remained at HK$1,200,000,000. The share subdivision took place on 2 November 2009.

33. NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES OF A SUBSIDIARY *(Continued)*

On 23 October 2009, iMerchants issued approximately 2,938,478,000 non-redeemable convertible preference shares with a par value of HK$0.2 each, as a partial consideration for the acquisition of an intangible asset through the acquisition of a subsidiary (note 41).

The valuation of the convertible preference shares was carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Group. The inputs for the calculation of the fair value were a blockage discount rate of 40% on convertible preference shares based on the restriction that the convertible preference shares cannot be converted into ordinary shares immediately. The variables and assumptions used in computing the fair value of the convertible preference shares are based on the directors' best estimate.

The fair value of the convertible preference shares as at 23 October 2009 amounted to approximately HK$567,126,000, representing HK$0.193 per convertible preference share. The amount of shortage was approximately HK$20,570,000 which represented the fair value was less than the par value of the non-redeemable convertible preference shares, is charged to the special capital reserves in the equity of iMerchants.

The non-redeemable convertible preference shares can be converted into ordinary shares of iMerchants at HK$0.2 per share (subject to adjustment). The conversion price was subsequently adjusted to HK$0.04 per share as a result of the share subdivision by an ordinary resolution in an extraordinary general meeting of iMerchants held on 30 October 2009. The major terms of the above-mentioned convertible preference shares are set out below:

(1) The convertible preference share holders has the right, exercisable at any time perpetual as from the date of issue, to convert the preference shares into fully paid ordinary shares, provided that (i) any conversion of the convertible preference shares does not trigger a mandatory offer obligation under Rule 36 of the Hong Kong Code on Takeovers and Mergers; (ii) the number of shares to be allotted and issued upon the exercise of the conversion rights attaching to the convertible preference shares, in aggregate with the new ordinary shares issued and new ordinary shares to be issued upon the exercise of the conversion rights attaching to the convertible bonds as held by the holders and parties acting in concert with it, represents not more than 9.9% of the then issued ordinary share capital of iMerchants; and/or (iii) the public float of the shares of iMerchants shall not less than 15% of the shares of iMerchants at any time.

(2) The convertible preference shares are transferable other than to connected persons, as defined under the Listing Rules of the GEM, of iMerchants and do not carry the right to vote. The convertible preference shares holders shall not be entitled to any dividend nor distribution.

(3) The convertible preference shares shall rank pari passu with any and all current and future preferred equity securities of the Company.

(4) The convertible preference shares are non-redeemable.

Based on their terms and conditions, the convertible preference shares have been classified as equity instrument in the consolidated statement of financial position of iMerchants.

34. LOAN FROM AN ASSOCIATE

As at 31 December 2008, the amount represented the loan from an associate obtained by a non-wholly owned subsidiary, Linyi Guanghua Water Industry Co. Ltd. ("Linyi Guanghua"). The loans carried interest at 6.12% per annum and repayable in five years. During the year ended 31 December 2009, Linyi Guanghua was disposed of together with its immediate holding company, Longwide Investment Limited.

35. CONVERTIBLE BONDS

	2009	2008
	HK$'000	*HK$'000*
Convertible bonds issued by the Company:		
At the beginning of the year	**262,335**	362,872
Change in fair value of convertible bonds	**204,404**	(64,537)
At the end of the year	**466,739**	262,335
Analysed as:		
Current portion	**466,739**	–
Non-current portion	**–**	262,335
	466,739	262,335

On 3 August 2007, the Company issued convertible bonds ("CB I") in aggregate principal amounts of HK$385 million. CB I bears 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. CB I 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.

The conversion price was subsequently adjusted to HK$1.136 on 3 February 2008 in accordance with the terms and conditions stated in the bond purchase agreement dated 30 July 2007.

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 end of the reporting period and the changes in fair values are recognised in the consolidated statement of comprehensive income.

35. CONVERTIBLE BONDS *(Continued)*

The fair value of approximately HK$466,739,000 (2008: HK$262,335,000) of CB I is determined taking into account a valuation carried out by Asset Appraisal, using the Monte Carlo Simulation Model.

The Company reclassified the CB I from non-current liabilities to current liabilities during the year ended 31 December 2009 as CB I are redeemable at the option of the bondholders on 3 August 2010 in accordance with the terms and conditions of the CB I.

The fair value of the bonds at the end of each reporting period was calculated using the market value basis. Major parameters adopted in the calculation of the fair value are summarised below:

	2009	2008
Stock price	**HK$0.232**	HK$0.098
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	**53.02%**	58.16%
Risk-free rate	**1.117%**	0.920%
Option life	**2.592 years**	3.592 years

36. CONVERTIBLE BONDS OF A SUBSIDIARY

On 23 October 2009, iMerchants issued zero-coupon convertible bonds ("CB II") with an aggregate principal amount of HK$200,000,000 to vendors as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary (note 41). CB II entitled the holders to convert the bonds into ordinary shares of iMerchants at any time between the date of issue of the bonds and their settlement date on 23 October 2014 in multiples of HK$1,000,000 at the conversion price of HK$0.2 (subject to adjustment) per conversion share. The conversion price was subsequently adjusted to HK$0.04 per share as a result of the share subdivision of iMerchants on 30 October 2009. No conversion shall be made, if immediately upon such conversion, the bondholder and its parties acting in concert with in aggregate hold more than 9.9% of the issued share capital of iMerchants from time to time; and/or the public float of iMerchants' shares is less than 15% of the total issued shares of iMerchants. iMerchants has an early redemption option to redeem in whole or in part at par before the maturity date by serving seven days' prior written notice, any amount of the bonds remains outstanding on the maturity date shall be redeemed at its then outstanding amount. The fair value of such early redemption option at the date of issue and subsequent reporting period is insignificant.

The convertible bonds contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds of a subsidiary". The effective interest rate of the liability component is 11.52% per annum.

36. CONVERTIBLE BONDS OF A SUBSIDIARY *(Continued)*

The movement of CB II element is as follows:

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At date of issue	**115,955**	**84,045**	**200,000**
Imputed interest charged for the year	**2,472**	**–**	**2,472**
At 31 December 2009	**118,427**	**84,045**	**202,472**

37. GOVERNMENT GRANTS

	HK$'000
At 1 January 2008	50,787
Addition	2,078
Exchange realignment	2,898
At 31 December 2008 and 1 January 2009	55,763
Addition	3,766
Exchange realignment	511
At 31 December 2009	**60,040**

Yichun Water has been granted by the local government of the PRC for the expansion and construction of water plants and pipelines. As at 31 December 2009 and 2008, the construction of water plants and pipelines was in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

38. 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 profits *HK$'000*	Service concession arrangement *HK$'000*	Total *HK$'000*
At 1 January 2008	–	1,414	1,414
Charge to consolidated statement of comprehensive income for the year	1,321	1,629	2,950
At 31 December 2008 and 1 January 2009	1,321	3,043	4,364
Charge to consolidated statement of comprehensive income for the year	741	1,097	1,838
Release upon disposal of subsidiaries	(168)	(637)	(805)
At 31 December 2009	**1,894**	**3,503**	**5,397**

At 31 December 2009, the Group had unused tax losses of HK$82,732,000 (2008: HK$84,069,000) 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.

At 31 December 2009, the Group also has other deductible temporary differences of approximately HK$21,889,000 (2008: HK$11,685,000). 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 interest 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$37,880,000 (2008: 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$1,123,000 (2008: 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.

39. 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 types 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 risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the raise of bank borrowings and new shares issues.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
– Loans and receivables (including cash and cash equivalents)	**347,216**	252,078
– Available-for-sale investments	**65,040**	59,519
Financial liabilities		
– At amortised cost	**378,686**	534,804
– At fair value through profit and loss	**466,739**	262,335

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a minority shareholder of a subsidiary, cash held at financial institutions, bank balances and cash, trade and other payables, amounts due to a minority shareholder of subsidiaries, bank borrowings, other loans, loans from an associate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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

Market risk

Currency risk

Other than the subsidiaries established in the PRC whose functional currency is RMB, the Company and subsidiaries' functional currency is HK$. However, certain bank balances, cash held in financial institutions and other receivables are denominated in currencies other than HK$. Foreign currencies are also used to settle expenses for overseas operations.

	As at 31 December 2009		As at 31 December 2008	
	United States dollar ("USD")'000	***RMB'000***	*USD'000*	*RMB'000*
Assets	**808**	**17,907**	227	794

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of HK$ against each foreign currency while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% (2008: 5%) change in foreign currency rates.

	USD		**RMB**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Increase (decrease) in loss for the year, net of tax effect				
– if HK$ weakens against foreign currencies	**(262)**	(73)	**(851)**	(37)
– if HK$ strengthens against foreign currencies	**262**	73	**851**	37

A change of 5% (2008: 5%) in exchange rate of HK$ against each foreign currency does not affect other components of equity.

In management's opinion, the sensitivity analysis is not necessarily of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

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

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

Market risk *(Continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other loans, amounts due to minority shareholders of subsidiaries, loans from an associate (see note 30, 31 and 34 for details) for the years ended 31 December 2009 and 2008. 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 note 29 and 30 for details) for the year ended 31 December 2009 and 2008. 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.

Sensitivity analysis

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

If interest rates had been 50 basis points (2008: 50 basis points) higher/lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2009 would increase/decrease by approximately HK$252,000 (2008: HK$268,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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

Market risk *(Continued)*

Sensitivity analysis

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% (2008: 5%) higher/lower, the investment revaluation reserve would increase/decrease by HK$3,252,000 (2008: HK$2,976,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Equity price risk on convertible bond

The Group is required to estimate the fair value of the conversion option component of the convertible bond at each end of the reporting period which therefore exposed the Group to equity security price risk.

Equity price sensitivity

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

If the stock price inputted to the valuation model had been 5% (2008: 5%) higher/lower while all other variables were held constant, the loss for the year ended 31 December 2009 and would increase/decrease by approximately HK$564,000/HK$702,000 (2008: profit would decrease/increase by approximately HK$24,000/HK$101,000) for the Group, principally as a result of the changes in fair value of the convertible bond.

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 at 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 statement of financial position.

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. 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.

The Group's concentration of credit risk by geographical locations is in the PRC, Hong Kong and Taiwan, which accounted for the entire (2008: 100%) total trade receivables as at 31 December 2009.

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

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

Credit risk *(Continued)*

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

For other financial assets, such as cash held at financial institutions and available-for-sale investments, the Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2009 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$300,895,000 (2008: HK$122,535,000) as at 31 December 2009.

The Group has planned to implement measure 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.

	Overdue	On demand or within one year	More than one year but less than two years	More than two years but less than five years	More than five years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009							
Non-derivatives financial liabilities							
Trade and other payables	–	116,360	–	–	–	116,360	116,360
Bank borrowings and other loans	34,155	42,039	20,667	50,990	29,015	176,866	135,641
Amounts due to minority shareholders of subsidiaries	–	8,258	–	–	–	8,258	8,258
Convertible bonds	–	385,561	–	–	–	385,561	385,166
Convertible bonds of a subsidiary	–	–	–	200,000	–	200,000	200,000
	34,155	552,218	20,667	250,990	29,015	887,045	845,425

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

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

Liquidity risk *(Continued)*

	Overdue *HK$'000*	On demand or within one year *HK$'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	35,134	39,037	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	–	–	–	3,705	–	3,705	3,384
Convertible bonds	–	963	385,561	–	–	386,524	262,335
	35,134	355,017	408,261	69,882	76,809	945,103	810,290

(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 (including derivative instruments) are 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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Fair value measurement recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets				
Listed equity securities	65,040	–	–	65,040
Financial liabilities at FVTPL				
Convertible bonds	–	466,739	–	466,739

There was no transfers between Level 1 and 2 in current year.

Included in other comprehensive income is an amount of HK$10,265,000 gain relate to listed equity securities held at the end of the reporting period and is reported as changes of "investment revaluation reserves". Of the total gains of losses for the year included in profit of loss, HK$204,404,000 relates to non-derivative financial liabilities stated at fair value through profit or loss held at the end of the reporting period. Fair value losses on non-derivative financial liabilities stated at fair value through profit or loss are included in "change in fair value of convertible bonds".

41. ACQUISITION OF AN INTANGIBLE ASSET THROUGH ACQUISITION OF A SUBSIDIARY

On 23 October 2009, iMerchants acquired the entire issued share capital of Supreme Luck from an independent third party for a total consideration of HK$925,572,000. The principal activity of Supreme Luck is an investment holding company and its major asset is an exclusive right to receive management fee from Careall Capital. Careall Capital is principally engaged in venture investment, venture investment advisory and management services. Careall Capital mainly invests in the equities of the new technology-based enterprises in the PRC. Accordingly, the transaction has been accounted for as the acquisition of an intangible asset through acquisition of a subsidiary.

The net assets acquired in the transaction are as follows:

	2009 ***HK$'000***
Net assets acquired:	
Intangible asset	**925,584**
Other payables	**(12)**
Net assets acquired	**925,572**
Total consideration satisfied by:	
Issue of ordinary shares *(Note)*	**58,446**
Issue of convertible bonds *(Note 36)*	**200,000**
Issue of non-redeemable convertible preference shares *(Note 33)*	**567,126**
Cash	**98,890**
Deferred consideration	**1,110**
	925,572
Net cash outflow arising on acquisition:	
Cash consideration paid	**98,890**

Note: As part of the consideration for the acquisition of Supreme Luck, 61,522,160 new ordinary shares of iMerchants with par value of HK$0.2 each were issued at the price of HK$0.95. The fair value of the ordinary shares issued was determined by reference to the published price available at the date of the acquisition.

42. ACQUISITION OF SUBSIDIARIES/BUSINESS

(a) 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	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	542
	120,043

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

(a) *(Continued)*

The goodwill arising on the acquisition was attributed to the anticipated profitability of iMerchants.

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

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 goodwill of approximately HK$15,176,000 was resulted. In respect of approximately HK$96,300,000 deposit 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.

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

(b) (i) 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. Blue Mountain contributed approximately HK$800,000 to the Group's profit for the period between the date of acquisition and the end of the reporting period.

(ii) 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 Qingyuan 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 discount on acquisition is attributable to the ability of the Group in negotiating the agreed terms of the transaction with the vendor. Danzhou Qingyuan contributed approximately HK$5,628,000 loss to the Group's profit for the period between the date of acquisition and the end of the reporting period.

(iii) 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. Shangqiu Zhengyuan contributed approximately HK$13,952,000 loss to the Group's profit for the period between the date of acquisition and the end of the reporting period.

(iv) On 12 August 2008, the Group acquired the entire issued share capital of Plenty One at a consideration of HK$55,000,000. Plenty One 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. 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 end of the reporting period.

(v) On 13 November 2008, the Group acquired an additional 51% equity interests in an existing 49% held associate, Danzhou Lian Shun Tong 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. Danzhou Lian Shun Tong contributed approximately HK$461,000 loss to the Group's profit for the period between the date of acquisition and the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(b) *(Continued)*

The goodwill arising on the above acquisitions was attributed to the anticipated future operating synergies from combinations.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the year would have been increased by approximately HK$42,336,000 and profit for the year ended 31 December 2008 would have been decreased by approximately HK$7,384,000.

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.

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

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

	Blue Mountain	Danzhou Qingyuan	Shangqiu Zhengyuan	Ping Xiang San He	Danzhou Lian Shun Tong	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:						
Property, plant and equipment	–	10,777	8,642	3,890	35,561	58,870
Concession intangible assets	–	127,364	197,989	–	–	325,353
Prepaid lease payments	–	14,526	33,751	2,755	–	51,032
Interest in an associate	52,794	–	–	–	–	52,794
Inventories	–	958	2,198	573	–	3,729
Trade and other receivables	–	2,138	19,488	1,219	2,834	25,679
Bank balances and cash	6	381	16,380	5,551	414	22,732
Cash held at financial institutions	–	–	–	36	–	36
Trade and other payables	–	(72,519)	(84,055)	(1,637)	(3,331)	(161,542)
Other loans	–	(14,414)	–	(2,003)	(34,033)	(50,450)
Bank borrowing	–	(29,031)	–	–	–	(29,031)
Amount due to minority shareholders	–	–	(162,726)	(3,977)	–	(166,703)
Loan from a shareholder	(47,730)	(27,706)	–	–	(3,507)	(78,943)
Minority interests	–	–	(15,517)	(976)	–	(16,493)
	5,070	12,474	16,150	5,431	(2,062)	37,063
Shareholder's loan	47,730	27,706	–	–	3,507	78,943
Goodwill	193,890	–	2,986	49,569	10,415	256,860
Discount on acquisition	–	(12,443)	–	–	–	(12,443)
Less: 29.15% equity interests acquired previously recognised as interest in an associate	–	–	(3,552)	–	–	(3,552)
Total consideration	246,690	27,737	15,584	55,000	11,860	356,871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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

	Blue Mountain	Danzhou Qingyuan	Shangqiu Zhengyuan	Ping Xiang San He	Danzhou Lian Shun Tong	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Satisfied by:						
Cash	–	7,500	15,584	55,000	5,073	83,157
Deposits paid for acquisition of subsidiaries	230,000	20,000	–	–	6,787	256,787
Direct costs relating to the acquisition	16,690	237	–	–	–	16,927
	246,690	27,737	15,584	55,000	11,860	356,871

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

	Blue Mountain	Danzhou Qingyuan	Shangqiu Zhengyuan	Ping Xiang San He	Danzhou Lian Shun Tong	Total
Cash consideration paid	–	(7,500)	(15,584)	(55,000)	(5,073)	(83,157)
Bank balances and cash acquired	6	381	16,380	5,551	414	22,732
Cash held at financial institutions	–	–	–	36	–	36
Direct costs relating to the acquisition	(16,690)	(237)	–	–	–	(16,927)
Less: Prepaid direct cost	16,361	–	–	–	–	16,361
	(323)	(7,356)	796	(49,413)	(4,659)	(60,955)

43. DISPOSAL OF SUBSIDIARIES/BUSINESS

(a) On 2 April 2009, the Group disposed of its 100% interests in Longwide Investment Limited and its subsidiaries (the "Longwide Group") and a shareholder's loan amounting to approximately HK$57,000 to Bright Blue Investments Limited, an independent third party, at a consideration of HK$50,000,000. The net assets of Longwide Group at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	22,191
Prepaid lease payments	33,190
Concession intangible assets	207,167
Inventories	2,008
Trade and other receivables	23,733
Bank balances and cash	3,032
Trade and other payables	(84,470)
Amount due to a minority shareholder of a subsidiary	(163,074)
Amount due to a shareholder	(57)
Loan from an associate	(3,379)
Deferred tax liabilities	(735)
Minority interests	(20,248)
	19,358
Assignment of amount due to a shareholder	57
Exchange reserve realised on disposal of subsidiaries	(5,006)
Attributable goodwill	28,087
Gain on disposal	7,504
Total consideration	50,000
Satisfied by:	
Cash	50,000
Net cash inflow arising on disposal:	
Cash consideration received	50,000
Bank balances and cash disposed of	(3,032)
	46,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2009

43. DISPOSAL OF SUBSIDIARIES/BUSINESS *(Continued)*

(a) *(Continued)*

Note: During the year ended 31 December 2009, the Longwide Group had contributed the Group of:

	2009 *HK$'000*	2008 *HK$'000*
Turnover	**8,067**	22,625
Loss for the year	**(3,391)**	(11,377)
Cash inflow (outflow) from operating activities	**2,731**	(4,931)
Cash outflow from investing activities	**(513)**	(8,424)
Cash inflow from financing activities	**–**	13,632

43. DISPOSAL OF SUBSIDIARIES/BUSINESS *(Continued)*

(b) On 15 April 2009, the Group disposed of its assets and liabilities of a branch of Jining Haiyuan, an indirect non-wholly owned subsidiary of the Company to an independent third party at a consideration of HK$10,000,000. The assets and liabilities of the branch of Jining Haiyuan at the date of disposal were as follows:

	HK$'000
Net assets and liabilities disposed of:	
Property, plant and equipment	2,922
Concession intangible assets	28,247
Inventories	7
Trade and other receivables	1,844
Bank balances and cash	599
Trade and other payables	(12,328)
Amount due to a minority shareholder of a subsidiary	(104)
Deferred tax liabilities	(70)
Minority interests	(6,335)
	14,782
Exchange reserve realised on disposal of business	(22)
Loss on disposal	(4,760)
Total consideration	10,000
Satisfied by:	
Cash	10,000
Net cash inflow arising on disposal:	
Cash consideration received	10,000
Bank balances and cash disposed of	(599)
	9,401

Note: During the year ended 31 December 2009, Jining Haiyuan branch had contributed the Group of:

	2009	2008
	HK$'000	*HK$'000*
Turnover	**1,442**	5,197
Profit for the year	**321**	2,046
Cash (outflow) inflow from operating activities	**(260)**	14,677
Cash outflow from investing activities	**–**	(32,393)
Cash inflow from financing activities	**–**	8,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

44. DEEMED PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY

On 23 October 2009, iMerchants issued 61,522,160 ordinary shares at a price of HK$0.2 each as a partial consideration in respect of acquisition of Supreme Luck (note 41), resulting in the Group's interest in iMerchants being diluted from 84.98% to 76.66%. Gain on deemed partial disposal of interests in a subsidiary amounted to approximately HK$21,323,000.

45. 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):

	2009 ***HK$'000***	2008 *HK$'000*
Prepaid lease payments	**12,881**	10,908
Property, plant and equipment	**2,186**	5,636
Concession intangible assets	**19,392**	19,575
	34,459	36,119

46. CAPITAL COMMITMENT

	2009 ***HK$'000***	2008 *HK$'000*
Capital commitments contracted but not provided for, in respect of acquisition of concession intangible assets and property, plant and equipment	**7,514**	5,388

47. 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 end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 ***HK$'000***	2008 *HK$'000*
Within one year	**3,242**	1,964
In the second to fifth year, inclusive	**803**	1,228
	4,045	3,192

48. 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 2009 and 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000, representing 0.67% and 0.95% of the shares of the Company in issue at that date, respectively.

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 grant. 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.

The following table discloses movements of the Company's share options held by directors and other eligible persons during year ended 31 December 2009:

	Outstanding at 1 January 2009 and 31 December 2009
Directors	**8,000,000**
Eligible persons	**10,000,000**
	18,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

48. 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 year ended 31 December 2008:

	Outstanding at 1 January 2008	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 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.

49. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2009, part of the consideration for the acquisition of a subsidiary comprised ordinary shares, convertible bonds and non-redeemable convertible preference shares, respectively. Further details of the acquisition are set out in note 41 above.

(ii) 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) will be transferred to the Group as the settlement of the outstanding balance.

(iii) 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.

50. 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 statement of comprehensive income as they become payable in accordance with the rules of the CPS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

51. CONTINGENT LIABILITIES

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

In 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 were transferred to Super Sino. On 26 June 2008, Super Sino was notified that Agricultural Bank of China, Danzhou Branch ("the Plaintiff") filed a claim regarding the liabilities transferred by Danzhou City Water with the Court against Danzhou City Water, Super Sino, Danzhou Urbun Development Corporation and the People's Government of Danzhou City for the repayment of the loan principal of approximately HK$29,601,000 (equivalent to RMB26,000,000) (2008: HK$29,332,000) and the interests of approximately HK$46,494,000 (equivalent to RMB40,838,000) (2008: HK$43,459,000) arising from the defendants of Danzhou City Water and Super Sino to the plaintiff.

On 13 November 2009, the Court issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26,000,000 together with the interest thereon.

On 17 December 2009, the Plaintiff made on appeal to the Higher People's Court of Hainan Province court seeking the fulfilment of the guarantee responsibility of Danzhou Urbun Development Corporation. Therefore, this litigation is still in the second instance for the final sentence to be made by the Higher People's Court of Hainan Province. As advised by the Company's legal counsel, the verdict issued by the Court is not legally binding before the sentence of the Higher People's Court of Hainan Province. Following the issue of the verdict, the Plaintiff and Super Sino agreed to resolve the issue by way of mediation, and reached a verbal agreement thereon. The relevant settlement agreement will be duly entered into after the review, report and approval procedures have been completed by the Plaintiff in accordance with its relevant procedures. As at the reporting date, the directors of the Company are discussing the settlement arrangement with the Plaintiff and there is no demand for settlement from the Plaintiff at the moment. The principal of the said loan and the interest thereon have been included in the consolidated financial statements of the Group. The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material financial impact on the Group.

52. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2009 HK$'000	2008 HK$'000
Paid rental expenses to:		
Minority shareholder of a subsidiary	**204**	–
Paid service expense to:		
Jinan Hongquan	**100**	288

The balance with related parties at the end of the reporting period is 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:

	2009 HK$'000	2008 HK$'000
Short-term benefits	**4,718**	4,784
Post-employment benefits	**107**	54
	4,825	4,838

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

53. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2009, 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		Principal activities
			Direct	Indirect	
Billion City Investments Limited	British Virgin Islands ("BVI")	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
Danzhou Qingyuan Water Industry Company Limited*	PRC	Registered capital of HK$30,000,000	–	100%	Provision of water Supply
Danzhou Lian Shun Tong Water Pipe Company Limited*	PRC	Registered capital of RMB1,000,000	–	100%	Provision of water Supply
Anhui Dang Shan Water Industry Company Limited*	PRC	Registered capital of RMB7,500,000	–	100%	Provision of water Supply
Onfar International Limited	BVI	100 ordinary shares of US$1 each	–	100%	Investment holding
Yichun Water Supply Co., Ltd	PRC	Registered capital of RMB45,500,000	–	51%	Provision of water Supply

53. 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
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
Bloom Profit Investment Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Not yet commence business
Victory Strategy Investment Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Not yet commence business
Nourish Gain Investments Limited	BVI	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
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
Yingtan Water Supply Co., Ltd	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	Hong Kong	HK$1	–	100%	Investment holding
Bonus Raider Investments Limited	BVI	1 ordinary share of US$1 each	100%	–	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

53. 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
iMerchants Limited *(Note i)*	Hong Kong	3,138,885,800 HK$0.04 shares	–	76.66%	Investment in financial and investment products and technology investment
iMerchants Asia Limited	BVI	US$6,001,000	–	100%	Investment holdings, investments in financial and investment products and technology investment
Supreme Luck International Limited	BVI	1 ordinary share of US$1 each	–	100%	Investment holding
iMerchants Consulting Limited	Hong Kong	HK$1	–	100%	Inactive
iMerchants Services Limited	BVI	US$1	–	100%	Inactive
Top Deluxe Limited (Note i)	Hong Kong	HK$1	–	100%	Inactive
Shine Gain Holdings Limited	BVI	US$1	–	100%	Investment holding
Plenty One Limited	PRC	US$100	–	100%	Investment holding
Ping Xiang City San He Lian Chuang Water Technology Company Limited*	PRC	RMB5,000,000	–	80%	Trading of ceramiste
Growwise Holding Limited	BVI	1 ordinary share of US$1 each	–	100%	Investment holding
Top Connect Holding Limited	BVI	1 ordinary share of US$1 each	–	100%	Not yet commence business
Swift Surplus Holdings Limited	BVI	100 ordinary share of US$1 each	100%	–	Investment holding
Mark Profit Group Holdings Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Not yet commence business

53. 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
Happy Hour Limited	BVI	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
Neutral Crown Holdings Limited	BVI	100 ordinary shares of US$1 each	100%	–	Not yet commence business
Longwide Investment Limited *(Note ii)*	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Linyi Ganghua Water Industry Co., Ltd *(Note ii)*	PRC	Registered capital of RMB20,000,000	–	51%	Sewage treatment
Shangqiu Zhengyuan Water Industry Company Limited* *(Note ii)*	PRC	RMB50,000,000	–	51%	Provision of water supply

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, except for iMerchants which has issued HK$200,000,000 of convertible bonds, in which the Group has no interest.

Notes:

(i) As at 31 December 2009, the Group held 76.66% (2008: 84.98%) of issued share capital of iMerchants. The market value of iMerchants as at 31 December 2009 is approximately HK$693,694,000.

(ii) Disposed during the year ended 31 December 2009

* The English names are for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Investments in subsidiaries		**2**	–
Available-for-sale investments		**58,890**	–
		58,892	–
Current assets			
Trade and other receivables		**23,032**	5
Amounts due from subsidiaries	*(a)*	**855,866**	883,279
Bank balances and cash		**660**	530
Cash held at financial institutions		**165,250**	–
		1,044,808	883,814
Current liabilities			
Trade and other payables		**1,729**	1,526
Other loans		**–**	10,000
Convertible bonds		**466,739**	–
		468,468	11,526
Net current assets		**576,340**	872,288
		635,232	872,288
Capital and reserves			
Share capital		**270,638**	189,090
Reserves	*(b)*	**364,594**	420,863
		635,232	609,953
Non-current liability			
Convertible bonds		**–**	262,335
		635,232	872,288

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) Amounts due from subsidiaries

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

(b) Reserves

	Share premium *HK$'000*	Share options reserve *HK$'000*	Investment revaluation reserves *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2008	418,093	727	–	(52,153)	366,667
Profit for the year	–	–	–	54,196	54,196
At 1 January 2009	418,093	727	–	2,043	420,863
Loss for the year	–	–	–	(219,107)	(219,107)
Other comprehensive expense for the year	–	–	(1,510)	–	(1,510)
Issuance of shares (net of transaction cost) *(note 32)*	164,348	–	–	–	164,348
At 31 December 2009	**582,441**	**727**	**(1,510)**	**(217,064)**	**364,594**

55. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of Financial Statements and HKFRS 8, Operating Segments, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

FIVE YEARS FINANCIAL SUMMARY

	2005 HK$'000	2006 HK$'000	2007 HK$'000 (restated)	2008 HK$'000	**2009 HK$'000**
Results					
Turnover	61,220	70,134	124,363	289,875	**335,834**
Finance costs	(262)	(494)	(2,612)	(10,280)	**(14,930)**
(Loss) profit before tax	(42,541)	(25,252)	(6,909)	65,746	**(334,150)**
Income tax expense	(1,718)	(336)	(1,414)	(6,937)	**(8,335)**
(Loss) profit for the year (including discontinued operations)	(44,259)	(95,742)	(11,431)	58,809	**(342,485)**
Discontinued operations					
Loss for the year from discontinued operations	–	(70,154)	(3,108)	–	**–**
Assets and liabilities					
Property, plant & equipment	20,991	64,628	54,852	129,947	**103,164**
Prepaid lease payments	–	–	10,143	76,443	**42,854**
Concession intangible assets	2,160	–	191,354	608,726	**416,718**
Intangible asset	–	–	–	–	**915,301**
Goodwill	–	1,361	77,333	383,347	**250,995**
Available-for-sale investments	–	–	–	59,519	**65,040**
Interest in an associate	–	36,477	7,617	55,783	**57,853**
Deposits paid for acquisition of subsidiaries	–	–	567,990	–	**50,901**
Net current assets (liabilities)	54,861	(43,573)	132,884	(122,535)	**(306,617)**
Assets classified as held for sale	1,081	–	–	–	**–**
	79,093	58,893	1,042,173	1,191,230	**1,596,209**
Share capital	73,450	116,450	189,090	189,090	**270,638**
Reserves	3,149	(64,722)	342,781	326,989	**190,659**
Non-redeemable convertible preference shares of a subsidiary	–	–	–	–	**587,696**
Equity component of convertible bonds of a subsidiary	–	–	–	–	**84,045**
Minority interests	1,960	6,063	86,536	194,862	**210,496**
Bank borrowing due after one year	534	245	32,017	27,076	**23,909**
Other loans – due after one year	–	857	938	45,940	**44,902**
Loans from a minority shareholder	–	–	11,738	3,384	**–**
Amount due to minority shareholder of subsidiaries	–	–	–	81,427	**–**
Convertible bonds	–	–	326,872	262,335	**118,427**
Government grants	–	–	50,787	55,763	**60,040**
Deferred tax liabilities	–	–	1,414	4,364	**5,397**
	79,093	58,893	1,042,173	1,191,230	**1,596,209**
Earnings (loss) per share					
Basic	(7.7 cents)	(9.6 cents)	(1.26 cents)	(2.32 cents)	**(15.68 cents)**
Diluted	N/A	N/A	(4.17 cents)	(0.91 cents)	**(15.68 cents)**